



Roosevelt Children's Academy Charter School

Selected Financial Operations

Report of Examination

Period Covered:

July 1, 2011 — January 31, 2013

2013M-254



Thomas P. DiNapoli

Table of Contents

	Page
AUTHORITY LETTER	2
EXECUTIVE SUMMARY	3
INTRODUCTION	5
Background	5
Objective	5
Scope and Methodology	6
Comments of School Officials and Corrective Action	6
BUDGETING AND MONITORING	7
Budget Preparation	7
Monitoring	8
Recommendations	9
BOARD EXPENDITURES	10
Recommendations	12
PROCUREMENT	13
Recommendations	16
APPENDIX A Response From School Officials	18
APPENDIX B Audit Methodology and Standards	21
APPENDIX C How to Obtain Additional Copies of the Report	23
APPENDIX D Local Regional Office Listing	24

State of New York Office of the State Comptroller

Division of Local Government and School Accountability

January 2014

Dear School Officials:

A top priority of the Office of the State Comptroller is to help school officials manage their schools efficiently and effectively and, by so doing, provide accountability for tax dollars spent to support school operations. The Comptroller oversees the fiscal affairs of charter schools statewide, as well as charter schools' compliance with relevant statutes and observance of good business practices. This fiscal oversight is accomplished, in part, through our audits, which identify opportunities for improving school operations and Board governance. Audits also can identify strategies to reduce school costs and to strengthen controls intended to safeguard school assets.

Following is a report of our audit of the Roosevelt Children's Academy Charter School, entitled Selected Financial Operations. 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 Education Law, as amended by Chapter 101 of the Laws of 2010.

This audit's results and recommendations are resources for local government officials to use in effectively managing operations and in meeting the expectations of their constituents. 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*



State of New York Office of the State Comptroller

EXECUTIVE SUMMARY

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 and is governed under Education Law Article 56. Oversight of the Roosevelt Charter School (School) is provided by the Board of Trustees (Board), which includes six members¹ including the Board Chairman (Chairman). The School Superintendent is the chief executive officer who is responsible, along with other administrative staff, for day-to-day School management under the Board's direction. The Board appointed one of its members as Treasurer, who is responsible for maintaining custody of the School's funds. The Director of Finance is the chief accounting officer.

Charter schools have fewer legal operational requirements than traditional public schools. Most of a charter school's requirements are contained in its by-laws, charter agreement, and fiscal/financial management plans, which are part of the charter school application.

The School's 2011-12 fiscal year operating expenses totaled approximately \$8.2 million. Operating expenses are funded primarily with revenues derived from billing school districts for resident pupils and from State and Federal aid. Budgeted expenses for 2012-13 were \$10.2 million.

Scope and Objective

The objective of our audit was to examine the School's financial operations for the period July 1, 2011 through January 31, 2013. We extended our scope back to July 1, 2008 to analyze the School's budget practices. In addition, we extended our scope forward to June 30, 2013 to review the adopted budget for the 2013-14 fiscal year. Our audit addressed the following related questions:

- Does the Board adopt reasonable budgets and routinely monitor financial operations?
- Were Board expenditures appropriate and reasonable?
- Did the School use competitive methods when procuring goods and services?

Audit Results

The Board did not adopt realistic budgets or routinely monitor financial operations. School officials created an expenditure code entitled "building fund" and budgeted \$4.8 million in the 2010-11 fiscal year, \$5.2 million in 2011-12 and \$2.6 million in 2012-13, even though School officials had no

¹ Effective April 30, 2013, the Board consists of five members, including the Chairman.

expectation of any outflow of cash for such expenses. This created the appearance that there would be no net income for those years. As a result, net income was understated in each of those three years. Additionally, the Board is not monitoring the annual budget and has not established a Budget and Finance Committee as required by School by-laws. As a result, the Board is unable to effectively monitor the School's financial operations.

The School also paid for Board member expenditures that were not authorized by the School's by-laws or policy. Of \$31,630 in Board expenditures, \$26,444 was not authorized. These expenditures, which included undocumented credit card charges as well as direct reimbursements, were for food, transportation to attend regular Board meetings,² lodging and charges for the Chairman's cell phone. Four Board members who resided outside of New York State incurred transportation costs. Additionally, the former Chairman was directly reimbursed for an undocumented expenditure, and alcohol was purchased at Board dinners. When Board expenditures are not authorized, appropriate and/or supported by itemized receipts, the School could be paying unnecessary or excessive costs.

Finally, the Board did not always seek competition when procuring goods and services, and its procurement policy needs to be improved. The School paid four vendors a total of \$521,197 for significant public work and purchase contracts without fair competition, did not seek competitive price quotes when procuring goods and services totaling \$16,028 and engaged six professional service providers, paid a total of \$478,264, without soliciting competition. When purchases are made without using a competitive purchasing process there is an increased risk that goods and services will not be purchased prudently and at the best price. Further, the School paid an information technology consultant \$118,182 more than the agreement provided and did not have an applicable agreement for paying \$25,713 for security services. Without ensuring that proper agreements are in place and verifying that compensation is correct, School officials are at risk of paying providers more than the Board intended.

Comments of School Officials

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 have taken, or plan to take, corrective action.

² The School's by-laws allow Board members to be reimbursed only for expenses related to special (not regular) Board meetings.

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 and is governed under Education Law Article 56. The Roosevelt Charter School (School) is located in the Town of Hempstead in Nassau County. Oversight of School operations is provided by the Board of Trustees (Board) which includes six members³ including the Board Chairman (Chairman). The Board is responsible for the general management and control of the School's financial and educational affairs. The School Superintendent (Superintendent) is the chief executive officer who is responsible, along with other administrative staff, for day-to-day School management under the Board's direction. The Board also appointed one of its members as Treasurer, who is responsible for maintaining custody of School funds. The Director of Finance is the chief accounting officer and is responsible for maintaining financial records and preparing monthly and annual financial reports.

Charter schools have fewer legal operational requirements than traditional public schools. Most of a Charter school's requirements are contained in its by-laws, charter agreement, and fiscal/financial management plans, which are part of the charter school application. A charter school is required to set both financial and academic goals, and the renewal of the charter every five years is dependent on the school meeting these goals.

The School's 2011-12 fiscal year operating expenses were approximately \$8.2 million. Operating expenses are funded primarily with revenues derived from billing school districts for resident pupils and from State and Federal aid. The School had approximately 725 enrolled students and 116 employees as of June 30, 2012. Budgeted expenses for 2012-13 were \$10.2 million.

Objective

The objective of our audit was to examine the School's financial operations. Our audit addressed the following related questions:

- Does the Board adopt reasonable budgets and routinely monitor financial operations?
- Were Board expenditures appropriate and reasonable?
- Did the School use competitive methods when procuring goods and services?

³ Effective April 30, 2013, the Board consists of five members, including the Chairman.

**Scope and
Methodology**

We examined the School's financial records and processes for the period July 1, 2011 through January 31, 2013. We extended our scope back to July 1, 2008 to analyze the School's budget practices. In addition, we extended our scope forward to June 30, 2013 to review the adopted budget for the 2013-14 fiscal year.

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 is included in Appendix B of this report.

**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 have taken, or plan to take, corrective action.

The Board has the responsibility to initiate corrective action. A written corrective action plan that addresses the findings and recommendations in this report should be prepared and forwarded 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. We encourage the Board to make this plan available for public review in the Board Clerk's office.

Budgeting and Monitoring

The responsibility for accurate and effective financial planning rests with the Board and the Director of Finance. They must ensure that budgets are prepared, adopted and modified in a prudent manner, accurately depicting the School's financial activity while also using available resources to benefit students. It is important for revenue and expenditure estimates to be realistic and developed based on prior years' operating results, past expenditure trends and anticipated future needs. Budgeted appropriations should be established only if there is an expected outflow of cash for the purchase of goods and services.

The Board's budgeting practices were not always transparent, and budget appropriations did not always represent actual planned expenditures. In addition, the Board has not adequately monitored the School's financial operations.

Budget Preparation

The Board is responsible for adopting realistic, structurally balanced operating budgets. Effective budgetary controls limit expenditures to the specific purposes and amounts authorized by the Board, including any budget amendments. In preparing the budget, the Board must estimate what the School will receive in revenue (e.g., Federal and State aid, and revenues derived from billing the resident school districts for resident pupils). The charter specifies that the School should provide the annual budget and a cash flow statement to the Board.

During our audit period, the Director of Finance prepared and presented the School's budget to the Chairman,⁴ who would then modify the budget and submit it to the Board for approval. We reviewed School budgets for the 2008-09 through 2013-14 fiscal years and found that budgets for 2010-11 through 2012-13 did not accurately reflect planned activities. Moneys set aside in the building fund were budgeted as planned expenditures when, in fact, the School had no plans to expend these funds. This practice had the effect of making it appear that the School would spend more than it planned to and hid the fact that the School would actually generate net income from operations.

⁴ The Chairman's service with the Board ended as of April 30, 2013. In May 2013, the Director of Finance began reporting to the Superintendent and the entire Board.

Table 1: Annual Budgets						
	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14
Budgeted Revenues	\$9,174,798	\$9,472,273	\$12,987,746	\$13,884,524	\$12,832,206	\$13,041,545
Budgeted Operating Expenditures	\$5,986,677	\$6,550,811	\$8,217,248	\$8,639,000	\$10,228,832	\$12,290,311
Less: Building Fund Expenditures	\$0	\$0	\$4,770,498	\$5,245,524	\$2,603,374	\$0
Budgeted Net Income	\$3,188,121	\$2,921,462	\$0	\$0	\$0	\$751,234

The budgets for fiscal years 2010-11 through 2012-13 showed that total budgeted revenues and expenditures would be equal, thereby generating no budgeted surplus. The Director of Finance told us that, at the direction of the former Chairman, he created an expenditure code for a building fund with budget expenditures which, when added to planned operating expenditures, would show an apparent net income of zero (no budgeted surplus). However, School officials had no real expectation of any outflow of cash for building fund expenses at the time the budget was prepared. School officials told us that the Chairman's decision to create a building fund was in response to an inquiry from a union representative about the School's excessive net assets, thereby eliminating projected net income from the budget. No actual money was spent from the building fund. As a result, the School's budgeted net income was understated from 2010-11 through 2012-13.

In the 2013-14 budget, the building fund code was removed, resulting in a budgeted net surplus of approximately \$751,000. The Director of Finance told us that this was because the School increased budgeted expenditures for professional development and teacher salaries. Our review of the 2013-14 budget confirmed that these expenditures were increased in comparison to the prior fiscal years reviewed.

Because budgets were adopted which did not disclose the true projected net income, School officials may have withheld significant funds from productive purposes and the transparency of School finances was compromised.

Monitoring

The responsibility for accurate and effective financial planning rests with the Board and the Director of Finance. The Board needs complete, accurate and current financial information to effectively monitor the School's financial operations. The School's by-laws require the Board to monitor and review the School's budgeting, regulatory, financial, compliance and academic performance. They also require the Board to establish a Budget and Finance Committee to review the budget and other fiscal reports to be submitted to the Board quarterly. Periodic budget-to-actual reports can help School officials monitor revenues and expenditures against the budget.

The Board did not properly oversee the School's financial operations, nor has it created a Budget and Finance Committee to review the budget or fiscal reports as required by the School's by-laws. Further, the Board's ability to carry out its fiduciary responsibilities was limited because the Board did not receive and review monthly financial reports, and did not request them, from the Director of Finance.

Although the Director of Finance prepares the annual budget and monthly budget reports which include the budget status and current asset reports, they are not provided to the entire Board but only to the Chairman and the Treasurer. While the Board minutes indicated that the annual budget was presented to the Board, we found no evidence that monthly reports were presented to the Board for monitoring the School's financial activities, which the Director of Finance confirmed. Without detailed interim financial reports, the Board is unable to effectively monitor the School's financial operations.

Recommendations

1. The Board should ensure that appropriations are incorporated in the budget only when there is an anticipated outflow of cash for goods or services and should ensure that appropriate transparency is provided through the budget process.
2. The Board should request interim financial reports from the Director of Finance for use in monitoring the School's financial operations and developing realistic budgets.
3. The Board should establish a Budget and Finance Committee as required by the School's by-laws.

Board Expenditures

Written policies and procedures are necessary components in an effective internal control structure for purposes such as credit card use and expense reimbursement for School officers and employees. In addition, the Board is responsible for ensuring that all claims, including Board expenditures, are audited to verify that costs paid are reasonable, appropriate, in compliance with the by-laws and supported by adequate documentation. The School's by-laws allow Board members to be reimbursed for reasonable expenses incurred to attend special meetings.

The School has one credit card that is used to purchase goods, services and Board expenses, such as meals and transportation. The School's credit card policy states that the credit card can be used in circumstances when standard procurement methods are not feasible, including travel and entertainment charges, but the policy does not provide guidelines on supporting documentation. The Superintendent and the Chairman are authorized credit card users and the card is kept locked by the Director of Finance. The School paid \$31,630 for Board members' expenditures during the audit period (\$22,854 in reimbursements made directly to Board members and \$8,776 in credit card payments).

School officials did not comply with the School's by-laws when reimbursing Board members' travel-related expenses. In addition, they did not ensure that all Board expenses were adequately supported. Of the \$31,630 in Board expenditures during the audit period, \$26,444 was not authorized by the School's charter, by-laws or Board resolution.

The Board expenditures were incurred by four of the six Board members for travel, food and lodging when attending Board meetings and other events held during our audit period.

Table 2: Board Expenditures

	Meals	Transportation	Lodging	Phone	Unknown	Total Expenditures	Unauthorized Expenditures
Reimbursements	\$2,030	\$11,303	\$6,490	\$2,222	\$809	\$22,854	\$17,888
Credit Card Payments	\$7,381	\$1,395				\$8,776	\$8,556
Total	\$9,411	\$12,698	\$6,490	\$2,222	\$809	\$31,630	\$26,444

General Board meetings are held at the School every two months. During our audit period, the Board held eight general Board meetings and two special meetings. The School's by-laws provide for reimbursement of Board members' expenses only when such expenses are related to attendance at special meetings. We found that only \$3,334⁵ of the \$31,630 Board expenditures were for attendance at special meetings. The Board also passed a resolution in April 2012 which authorized reimbursements for expenses incurred by one of the Board members to attend business-related trips on behalf of the School. Additional authorized reimbursements to this Board member totaled \$1,852.⁶ School officials and Board members could not provide us with a reason that this Board member was the only one authorized to be reimbursed. The remaining \$26,444 of the \$31,630 expended represents unauthorized Board expenditures that were paid by the School for Board members to attend regular Board meetings, and charges for the Chairman's cell phone. The Chairman received total reimbursements of \$18,387, of which \$16,728 was not authorized by the School's charter, by-laws or Board resolution.

Chairman's Cell Phone and Unidentified Reimbursement — Each month, the School reimbursed the Chairman for using his personal cell phone to conduct School business. These unauthorized reimbursements totaled \$2,222 for the audit period. School officials were unable to provide us with a copy or a summary of the cell phone bills. The Director of Finance told us he requested a summary of the monthly bills but was never provided with them. Therefore, School officials cannot verify that the use of the cell phone was for School business. Furthermore, School officials did not provide us with a resolution, by-law or policy authorizing the School to pay the Chairman's personal cell phone bills. The Chairman was also reimbursed \$809 in August 2012, with no receipt or documentation identifying the purpose. The Director of Finance did not know what the nature of the expenditure was.

Transportation and Lodging – Transportation and lodging to attend Board meetings accounted for \$19,188⁷ of the total Board expenditures, of which \$14,623 was unauthorized because the expenditures were neither associated with a special meeting nor incurred by the Board member who was authorized to receive reimbursement for all his expenses.

⁵ A special meeting was held at a catering hall in August 2012 and one at a nearby university in June 2012. The Board's expenses were as follows: \$585 for food, \$1,819 for transportation and \$930 for lodging. These expenses also include a total of \$1,455 incurred by the one Board member who has been authorized by the Board to be reimbursed for all his expenses.

⁶ Comprising \$36 for food, \$1,403 for transportation and \$413 for lodging

⁷ Total authorized expenses of \$3,222 for transportation and \$1,343 for lodging accounted for \$4,565 of the \$19,188.

The four Board members who incurred these expenditures do not reside in New York State; three reside in North Carolina and one in New Jersey. The Board member who lives in New Jersey incurred cab fares to commute to Board meetings to and from New Jersey, an average of \$206 per trip, for a total of \$2,061⁸ during the audit period. Another Board member, who resides in North Carolina, incurred total lodging costs of \$494. The Chairman also resides in North Carolina and the total amount reimbursed directly to him during our audit period for transportation and lodging was \$13,406, of which \$12,068 was unauthorized.⁹

Meal Expenses – The School does not have a meal expense policy. However, meal expenses incurred by the Board during our audit period totaled \$9,411, of which \$8,790 was unauthorized; these unauthorized expenses were neither associated with a special meeting nor incurred by the Board member who was authorized to receive reimbursement for all his expenses.

The School credit card was used on 27 occasions to purchase food for Board members and other School officials after attending Board meetings. Nine of the 27 credit card purchases totaling \$2,594 had receipts that were not itemized and seven charges totaling \$1,823 had no supporting documentation at all. Further, from the remaining 11 charges that had itemized receipts, we identified seven dinners totaling \$1,928 in which alcohol was purchased. In addition to the food purchased with the credit card, Board members were reimbursed a total of \$2,030 for food purchased, of which \$1,629 was unauthorized. The remaining \$816 was for meals related to attendance at regular (not special) Board meetings, which is not authorized by the School's by-laws.

Without ensuring that the proper use of credit cards is defined by by-laws or policies and procedures, and that reimbursement and credit card claims are supported by itemized receipts, the School could be at risk of paying for unauthorized or excessive costs.

Recommendations

4. School officials should comply with the School's by-laws and policies regarding reimbursement of expenditures incurred by the Board members to attend special meetings. No other expenditures should be either charged on the credit card or directly reimbursed to Board members.
5. The Board should revise the credit card policy to require itemized receipts to be submitted for any reimbursement.

⁸ Total transportation paid by credit card was \$1,395; the balance of \$666 was reimbursed to the Board member.

⁹ Unauthorized transportation totaling \$7,415 and lodging totaling \$4,653

Procurement

Goods and services should be procured economically so as to assure maximum quality at the lowest possible cost, and guard against favoritism, extravagance and fraud. Because charter schools have fewer legal operational requirements than traditional public schools, it is imperative that the Board take an active oversight role and establish guidelines for the Business Office and other staff to follow when purchasing goods and services. Good business practices dictate that such guidelines include seeking competition in procurement to ensure that vendor contracts are not based on established relationships, but on fair competition. This will help ensure the best quality of product/service at the lowest reasonable cost.

The School can encourage competition by obtaining price quotes from various vendors, which may be written or verbal based on dollar thresholds established by the Board. The Board should establish a policy that specifies whether quotes are required and whether they are to be written or verbal. The policy should also require that School officials and employees should document any quotes received, whether written or verbal. The use of competition is particularly important when procuring goods and services at significant cost. For larger purchases, clearly written specifications set forth the standards and requirements that competing vendors must observe and supply them with the information necessary to prepare their bids.

The School did not have sufficient Board-approved policies and procedures over the procurement process. The School's procurement policy simply states that goods and services should be obtained at the lowest possible cost and requires only that the Director of Finance, when purchasing an item for the first time, contacts numerous vendors for the best price quote. However, the policy does not contain specific guidelines, such as when and how to solicit competition.

Significant Public Work and Purchase Contracts – We examined a sample of purchases from five vendors¹⁰ that were paid a total of \$625,347 during the audit period and were awarded significant public work contracts (over \$35,000) or purchase contracts (over \$20,000). The School did not seek adequate competition when procuring services from four of these vendors, who were paid a total of \$521,197.

- The School procured telephone services from a vendor for \$86,036. Although School officials issued specifications

¹⁰ See Appendix B for methodology of sample selection

to three other vendors, they did so just one day before responses were due, in effect excluding those vendors from competition. The selected vendor, whose response was the only one received, was not only aware of the scope of the job before the other vendors were contacted but also prepared the specifications that the School sent to the other vendors. Under these circumstances, the selected vendor had an unfair advantage over the other vendors in competing for the contract.

- The Board procured the services of an office supply vendor for \$98,206. School officials told us this vendor was preferred because of a long-standing relationship with the School as well as the discounts that the vendor provided. However, without the benefit of a competitive process, School officials cannot be sure that they are paying the lowest available price.
- The School did not solicit competition from an adequate number of vendors for two contracting jobs. Two vendors, paid a total of \$336,955, were the only vendors from whom School officials requested proposals for these public work contracts. Although School officials said the contracted work was for emergencies, there was no documentation to indicate this. One contract, which the School awarded on August 15, 2012, was for remodeling the upstairs of a school building. The architect's letter to the Board, dated September 21, 2012 – five weeks after the contract was awarded – stated that the scope of the work performed by the vendor was 100 percent completed. Further, School officials told us the offices were never occupied (and they were not occupied during our observation on February 26, 2013). The other project was for the installation of concrete barriers in a School parking lot. The contract agreement, entered into on October 25, 2011, stated that the work was to be completed by November 19, 2011 and allowed for the contract term to be extended by mutual consent if necessary.¹¹

Goods and Services – We randomly selected nine vendors¹² who were paid a total of \$56,326 during the audit period and examined nine claims totaling \$32,032¹³ paid to these vendors to determine if the school sought competition in making these procurements. School officials did not provide evidence of seeking competition for eight of the nine claims, totaling \$16,028. For example, the School paid \$8,045 to a learning supply company and \$2,471 to a fingerprint processing

¹¹ The project was completed on November 7, 2011.

¹² See Appendix B for sampling methodology

¹³ We reviewed the claim with the highest dollar amount for each vendor in our sample.

company¹⁴ without seeking competition. School officials said that, while they seek competition prior to procuring goods and services, they do not always obtain, document or retain proof. When goods and services are procured without seeking and documenting competitive quotes, there is no assurance that the School is purchasing the desired goods and services at the lowest cost.

Professional Services – Sound business practice indicates the use of competition to ensure that professional services of the desired quality are procured at the best cost. Additionally, it is essential that the School have a written agreement with each professional service provider with a clearly defined and mutually agreed-upon basis for determining entitlement to payments. Written agreements should include the timeframe and description of services to be provided and may be used to verify that the fees charged are in accordance with the Board's intent. Generally, there are no set rules regarding the frequency of seeking competition for professional services. However, provisions should be made for periodic solicitations at reasonable intervals.

Although the School's procurement policy states that goods and services should be obtained at the lowest possible cost, it makes no specific mention of professional service providers. As a result, the School did not seek competition when procuring services from professional service providers.

We reviewed procurements from six professional service providers, who were paid a total of \$478,264 during our audit period, to determine if School officials sought competition when procuring these services, if work agreements were established and if payments were made in accordance with Board-approved rates. School officials did not solicit competitive proposals prior to obtaining any of these six professional services, which included information technology (IT) consulting services totaling \$213,832, legal services totaling \$184,892, security services totaling \$26,689, recruiting services totaling \$25,762, public-relations services totaling \$17,075 and architectural services totaling \$10,014.

We also found that the IT consulting company was paid \$118,182 more than the terms of its written agreement.¹⁵ The Director of Finance said that \$66,547 of the total overpayment was reimbursement to the IT consultant for purchasing laptops for the School from an outside vendor and that another \$34,700 was paid because the terms of the renewed agreement provided for a full-time on-site consultant at this

¹⁴ The vendors were paid were paid \$16,820 and \$3,677 during the audit period, respectively.

¹⁵ The written agreement approved by the Board specifies total payments of \$72,300 from October 2011 through October 2012. The total paid to the vendor from October 2011 through January 2013 was \$190,482.

additional cost. However, we were not provided with an amendment, a new agreement or a resolution authorizing this renewal. The remaining \$16,935 of unauthorized payments represented miscellaneous work outside the scope of the contract.

Additionally, the Board did not enter into a written agreement with the vendor providing security services. Of the \$26,689 paid to this company during our audit period, \$25,713 was paid without a written agreement or Board approval. Although the School began making payments to the security company in November 2011, the agreement between the School and the company only began in January 2013. School officials did not have any agreement or Board resolution authorizing the company to provide security services prior to January 2013. Therefore, payments made during the period July 1, 2011 through December 31, 2012 could not be confirmed against the agreement or otherwise shown to be the Board's intent. The Director of Finance said that the January 2013 contract was for more manpower at a lower rate than the School had paid. Further, the Business Office,¹⁶ which generally handles procurement for the School, was not involved in the procurement process for three¹⁷ of the six vendors who were paid a total of \$56,660 during the audit period. The Business Office was not aware that the security company had been hired until personnel showed up for work at the School in October 2011.

Had the School sought competition for professional services during our audit period, it could have incurred lower costs. Additionally, without a written agreement, there is a risk that the service providers could be paid more than the Board intended. When purchases are made without using the appropriate competitive method, School officials have no assurance that goods and services are being procured in the most prudent and economical manner.

Recommendations

6. The School should consider amending its procurement policy to require that competition is sought when procuring goods and services, including professional services. The policy should establish dollar thresholds, the method of competition and the documentation that should be retained.
7. The School should consider issuing clearly written bid specifications when making larger purchases and awarding public work contracts.

¹⁶ The Director of Finance supervises the Business Office. Employees in the Business Office would be responsible for seeking competition, under the direction of the Director of Finance.

¹⁷ The vendors supplied security, recruiting and architectural services.

8. The Board should enter into written agreements with all professional service providers and School officials should adhere to the Board-authorized agreements.

APPENDIX A

RESPONSE FROM SCHOOL OFFICIALS

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

Roosevelt Children's Academy Charter School

201 Debevoise Avenue, Roosevelt, NY 11575
Phone: (516) 442-2148 ext: 8206 Fax: (516) 223-6473
www.rcaeagles.org

Dr. Ron Boykins
Superintendent

Philip Leconte
Chief Financial Officer

Business Office response:

We are in receipt of the RCA Selected Financial Operations Report of Examination for the period covered July 1, 2011-January 31, 2013 (2013M-254).

As of fiscal year 2014, the entire Board has adopted a reasonable budget and is routinely monitoring the organization. For example, we have established a Finance Committee, hired an outside CPA accounting firm (CSBM) as requested by CSI to report on our overall fiscal operations. We also compiled a new Financial Policies and Procedures Manual which was approved by the Board. The Financial Committee meets on a monthly basis one week before the Board meeting to review all documents and reports to ensure that there are no discrepancies and to make any adjustments to the budget, if necessary. The financial reports are produced on a monthly basis. The reports are then given to the Superintendent who in turn presents the reports to the Board.

Independent Fiscal Monitor (CSBM)

☐ Conduct a monthly review of fiscal operations at the school to ensure compliance with the school's FPPM and APM. The monthly review would include the following:

- Accounting

☐ Review key financial transactions to ensure adherence to the FPPM, APM and Generally Accepted Accounting Principles (GAAP)

☐ Review and assess leases, contracts, grant documents and other transactions to ensure proper recording

☐ Review monthly bank and debit and/or credit card statements

☐ Review the monthly process of closing books including closing entries for revenue, expense accruals and prepaid expense recognition

☐ Review and assess the chart of accounts

- Financial Reporting

☐ Review the school's monthly, quarterly and annual financial reports and budgets (including Budgets vs. Actual with projections; Cash Flow with projections, Balance Sheet and Statement of Cash Flows) to assess the accuracy of the school's reporting and projections as well as the school's adherence to the FPPM and APM

☐ Provide the school with recommendations regarding financial reports and budgets

- Vendors

☐ Track expenditures by vendor on a monthly basis

☐ Assess whether expenditures are in accordance with the FPPM and APM

☐ Present findings to school leadership and the Board

☐ Report to the Board of Trustees monthly regarding the school's performance in adhering to its financial policies and procedures and expenditures exceeding \$25,000.

☐ Review transactions recommended by the Board of Trustees and school leadership (for approval) that meet the following guidelines:

- Contracts, leases or other obligations in excess of \$25,000, or that would aggregate to over \$25,000 during the course of a single fiscal year;
- Withdrawals, redemptions or sales of cash, bonds, securities or investments of any type in excess of \$25,000, or any pattern of same totaling in excess of \$25,000;
- Execution of new debt instruments or the securing of new credit lines or extensions of credit in excess of \$25,000; and
- Purchase or sale of any real property, or option thereon.

☐ Approve Board of Trustee and school leadership recommended transactions which meet the criteria above and are in compliance with the school's FPPM.

As of fiscal year 2014, the budget for the Board expenditures is 10K. This amount is appropriate and reasonable. CSBM is monitoring the Board expenditures.

The vendors are now selected through the business office. We go through a detailed and defined process wherein we place an RFP ad in the newspaper, go through a competitive bid analysis, then we provide the school leadership with our findings and they present the information/findings to the Board for their approval. This process is no longer done exclusively by the Board Chair/Chairman and the Treasurer.

The line item building fund is now nonexistent in our Budget. Prior to fiscal year 2014, there was a great deal of money allocated to the building fund. In fiscal year 2014, there is no more money allocated to the building fund. Rather, 100% of the revenue collected was used for salary, benefits, curriculum, technology, professional development and necessary supplies for the students.

As you can see from the actions taken above, we have worked diligently to correct the practices and issues cited in the report. We intend to remain in compliance with all the rules and regulations.

Philip Leconte
Chief Financial Officer

Dr. Ron Boykins
Superintendent

APPENDIX B

AUDIT METHODOLOGY AND STANDARDS

Our overall goal was to determine if the Board and School officials were providing effective financial oversight of cash disbursements, payroll and personal services, management of budget estimates, and reserve balances and net assets. To accomplish our objectives, we interviewed School officials and staff members when possible and emailed and communicated by telephone with individuals who were not readily available. We reviewed the by-laws and School charter.

After reviewing the information gathered during our initial assessment, we determined where weaknesses existed and evaluated those weaknesses for the risk of potential fraud, theft and/or professional misconduct. We then decided on the reported objective and scope by selecting for audit those areas most at risk. We selected budgeting and monitoring, Board expenditures and procurement for further audit testing.

Budgeting and Monitoring:

We examined records and documents for the period July 1, 2008 through January 31, 2013. We reviewed budgeted revenues and expenditures for the five-year period July 1, 2008 through June 30, 2014. Our testing included the following steps:

- We reviewed the adopted budgets for six years to analyze budgeted expenditures and budgeted net income.
- We interviewed School officials and Board members to determine if they were properly monitoring the adopted budget.

Board Expenditures:

- We reviewed credit card charges and reimbursements made to Board members to determine if they were reasonable and appropriate expenses.
- We reviewed the procurement policy, by-laws and the School charter to determine if the Board's expenditures were authorized.

Procurement:

To conduct the procurement test for bids, quotes and RFPs, we reviewed the School's procurement policy, charter and by-laws to determine if guidelines were provided for the procurement of goods and services.

For purchase contracts over \$20,000 and public works contracts over \$35,000:

- We used a random number generator to select four vendors from a total population of 20 vendors (25 percent) with payments within the above mentioned threshold. We also judgmentally

selected one vendor from the population of 20 vendors, who provided and installed telephone services to the School. Our selection of this vendor was based on complaints from Board members and employees.

- We interviewed School officials, reviewed internal correspondence and requested documentation to determine if the School sought competition when procuring services from the selected vendors.
- We reviewed work agreements to determine if payments were made in accordance with Board-approved rates of compensation.

For purchase contracts under \$20,000 and public works contracts under \$35,000:

- We used a random number generator to randomly select nine vendors from a population of 196 vendors with payments under the above thresholds and of at least \$1,000. Because the results of this sample were consistent, we did not expand the test sample further.
- We interviewed and requested documentation from school officials and employees to determine if competition was sought when procuring services from the selected vendors.

For professional services procurement:

- We used a random number generator to randomly select five vendors from a population of 20 professional service providers (25 percent) who were paid at least \$1,000 during the audit period. We also judgmentally selected one IT service provider from this population based on complaints from Board members and employees.
- We interviewed and requested documentation from School officials and employees to determine if they sought competition when procuring services.

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

APPENDIX C

HOW TO OBTAIN ADDITIONAL COPIES OF THE REPORT

To obtain copies of this report, write or visit our web page:

Office of the State Comptroller
Public Information Office
110 State Street, 15th Floor
Albany, New York 12236
(518) 474-4015
<http://www.osc.state.ny.us/localgov/>

APPENDIX D
OFFICE OF THE STATE COMPTROLLER
DIVISION OF LOCAL GOVERNMENT
AND SCHOOL ACCOUNTABILITY

Andrew A. SanFilippo, Executive Deputy Comptroller
Gabriel F. Deyo, Deputy Comptroller
Nathaalie N. Carey, Assistant Comptroller

LOCAL REGIONAL OFFICE LISTING

BINGHAMTON REGIONAL OFFICE

H. Todd Eames, Chief Examiner
Office of the State Comptroller
State Office Building - Suite 1702
44 Hawley Street
Binghamton, New York 13901-4417
(607) 721-8306 Fax (607) 721-8313
Email: Muni-Binghamton@osc.state.ny.us

Serving: Broome, Chenango, Cortland, Delaware,
Otsego, Schoharie, Sullivan, Tioga, Tompkins Counties

BUFFALO REGIONAL OFFICE

Robert Meller, Chief Examiner
Office of the State Comptroller
295 Main Street, Suite 1032
Buffalo, New York 14203-2510
(716) 847-3647 Fax (716) 847-3643
Email: Muni-Buffalo@osc.state.ny.us

Serving: Allegany, Cattaraugus, Chautauqua, Erie,
Genesee, Niagara, Orleans, Wyoming Counties

GLENS FALLS REGIONAL OFFICE

Jeffrey P. Leonard, Chief Examiner
Office of the State Comptroller
One Broad Street Plaza
Glens Falls, New York 12801-4396
(518) 793-0057 Fax (518) 793-5797
Email: Muni-GlensFalls@osc.state.ny.us

Serving: Albany, Clinton, Essex, Franklin,
Fulton, Hamilton, Montgomery, Rensselaer,
Saratoga, Schenectady, Warren, Washington Counties

HAUPPAUGE REGIONAL OFFICE

Ira McCracken, Chief Examiner
Office of the State Comptroller
NYS Office Building, Room 3A10
250 Veterans Memorial Highway
Hauppauge, New York 11788-5533
(631) 952-6534 Fax (631) 952-6530
Email: Muni-Hauppauge@osc.state.ny.us

Serving: Nassau and Suffolk Counties

NEWBURGH REGIONAL OFFICE

Tenneh Blamah, Chief Examiner
Office of the State Comptroller
33 Airport Center Drive, Suite 103
New Windsor, New York 12553-4725
(845) 567-0858 Fax (845) 567-0080
Email: Muni-Newburgh@osc.state.ny.us

Serving: Columbia, Dutchess, Greene, Orange,
Putnam, Rockland, Ulster, Westchester Counties

ROCHESTER REGIONAL OFFICE

Edward V. Grant, Jr., Chief Examiner
Office of the State Comptroller
The Powers Building
16 West Main Street – Suite 522
Rochester, New York 14614-1608
(585) 454-2460 Fax (585) 454-3545
Email: Muni-Rochester@osc.state.ny.us

Serving: Cayuga, Chemung, Livingston, Monroe,
Ontario, Schuyler, Seneca, Steuben, Wayne, Yates Counties

SYRACUSE REGIONAL OFFICE

Rebecca Wilcox, Chief Examiner
Office of the State Comptroller
State Office Building, Room 409
333 E. Washington Street
Syracuse, New York 13202-1428
(315) 428-4192 Fax (315) 426-2119
Email: Muni-Syracuse@osc.state.ny.us

Serving: Herkimer, Jefferson, Lewis, Madison,
Oneida, Onondaga, Oswego, St. Lawrence Counties

STATEWIDE AUDITS

Ann C. Singer, Chief Examiner
State Office Building - Suite 1702
44 Hawley Street
Binghamton, New York 13901-4417
(607) 721-8306 Fax (607) 721-8313