

Buffalo Collegiate Charter School

Credit Cards

JULY 2022



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

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Report Highlights

Buffalo Collegiate Charter School

Audit Objective

Determine whether Buffalo Collegiate Charter School (School) credit card charges were properly approved, adequately supported, and for School purposes.

Key Findings

Credit card charges were not always properly approved or adequately supported. Without adequate support, officials could not demonstrate that all charges were for School purposes.

- We reviewed 170 credit card charges totaling \$128,070 and found supporting documentation such as receipts was not available for 66 charges totaling \$23,376. The need or purpose was not documented for 72 charges totaling \$50,989.
- The Board Treasurer (Treasurer) did not adequately review credit card charges in a timely manner. The Treasurer reviewed credit card charges an average of 108 days after the credit card statement was paid.
- We reviewed all 18 credit card charges over \$2,500 in our audit period totaling \$70,337 and found no evidence that the Treasurer pre-approved these charges as required by the policy.
- The Head of School and other School officials circumvented the existing policy requirements and made nearly \$51,000 in unsubstantiated credit card purchases.

Key Recommendations

- Retain sufficient supporting documentation to substantiate the appropriateness and need or purpose of all credit card purchases.
- Adequately review credit card charges in a timely manner.

School officials generally agreed with our recommendations and plan to implement corrective action.

Background

The School is in the City of Buffalo and is governed by a 10-member Board of Trustees (Board). The Board is responsible for the general management and control of the School's financial and educational affairs. The Head of School is the School's chief executive officer and is responsible, along with other administrative staff, for the School's day-to-day management under the Board's direction.

The School contracts with an accounting firm to perform certain financial functions, with assistance from the School Director of Finance and External Partnerships (Director), including maintaining financial records and preparing monthly financial reports. The Treasurer is responsible for providing direction for the School's financial management and assisting the Board with its financial oversight responsibilities.

Quick Facts

Enrollment	320
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2020-21 Operating Expenses	\$3.5 million
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Credit Card Activity During the Audit Period

Number of Charges	1,190
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Total Dollar Amount Charged	\$338,373
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Audit Period

July 1, 2019 – January 31, 2022

Credit Cards

The School's credit card balance was paid automatically approximately 14 days after the billing date. The accounting firm prepared a monthly summary report for officials, referred to as the electronic funds transfer (EFT) report, which listed all credit card charges made during the month and all automatic withdrawals from the School's bank account for payments to the credit card company. The monthly EFT report was then signed by two authorized check signers after payment had been processed.

[C]redit card use should be monitored regularly. ...

How Should School Officials Properly Oversee Credit Cards?

To retain a reasonable level of control over credit cards, a board should adopt written policies addressing and monitoring card use. These policies should identify individuals authorized to use credit cards, describe the type of purchases allowed, establish reasonable credit limits, and describe the documentation necessary for supporting credit card purchases. Furthermore, credit card use should be monitored regularly, and purchases should be reviewed and approved prior to payment to ensure expenses are for appropriate school purposes.

The School's purchasing policy was last adopted by the Board in July 2018 and includes requirements for credit card use. The policy states, among other requirements, that credit cards shall only be issued to and used by the Head of School, Director of Curriculum and Instruction, and Director of Operations. In addition, the policy requires that an individual charge should not exceed \$2,500, except with the Treasurer's approval. The policy states that authorized credit card holders are responsible for submitting itemized receipts or other printed documentation from the vendor for all charges and properly documenting the need or purpose of the charge. The card holder may be required to reimburse the School for the amount of any purchases that do not contain adequate supporting documentation and justification.

Credit Card Charges Were Not Supported to Demonstrate Charges Were for School Purposes

The School made 1,190 credit card purchases totaling \$338,373 during our audit period. We reviewed a sample¹ of 170 credit card charges totaling \$128,070 and found 66 charges totaling \$23,376 were not supported by sufficient documentation such as receipts. Additionally, the need or purpose was not documented for 72 charges totaling \$50,989 as required by the purchasing policy.² Typically, officials documented the need or purpose of the charges on the credit card cover sheet in the monthly EFT report. However, for these 72 charges, the purposes were not

1 Refer to Appendix B for further information on our sample selection and testing methodology.

2 Some transactions had more than one exception.

documented in the monthly report or in any other manner; therefore, the School-related purpose was not readily apparent.

Figure 1 lists examples of the unsupported credit charges we identified and discussed with officials:

Figure 1: Unsupported Credit Card Charges

Amount	Purchase Description	Reason for Charge	Did Officials Document Reason for Charge?
\$1,195	Sporting goods	Basketball hoop for outdoor play	No
\$1,164	Catering	Catering services for staff holiday party	Yes
\$843	Custom promotional products	Community outreach and student recruitment	Yes
\$840	Tickets to professional baseball game	Student appreciation and recruitment event	Yes
\$767	Advertising	School newsletter	Yes
\$599	20 gift cards (\$25 each plus \$3.95 service fee)	Gifts for staff and students	No
\$457	Staff luncheon	Staff appreciation lunch	Yes
\$350	35 coffee house gift cards	Welcome back gift for staff	No
\$215	14 restaurant gift cards (\$15 each plus \$5 tip)	Gift for teachers working during open house event	No

Although the Head of School and School officials provided reasonable explanations for most of the unsupported credit card charges, they could not provide us with documentation to demonstrate that credit card purchases were for appropriate School purposes. Additionally, we contacted five individuals who received the gift cards purchased to confirm that the gift cards purchased were given to teachers and staff. Although the gift cards purchased were of nominal value, the School does not have a policy which addresses providing nominal gifts to staff and students. Without a policy establishing clear guidance and controls on gift giving, School officials and other interested stakeholders cannot be assured that gift giving does not become abusive or wasteful.

The Head of School told us he provided the monthly statements to the Director and that the Director was responsible for collecting supporting documentation and turning the information over to the accounting firm. However, the majority of the unsupported credit card charges were made by the Head of School, who did not obtain or retain receipts and provide them to the Director, as required by the policy.

The School's purchasing policy, which includes requirements for credit card use, does not contain provisions for monitoring use and ensuring compliance with the purchasing policy. As a result, the Head of School and other School officials were able to circumvent the existing policy requirements and made nearly \$51,000 in unsubstantiated credit card purchases.

Credit cards provide a convenient method for making small one-time purchases. However, when credit card use is not properly controlled and monitored or officials are allowed to circumvent existing policies, there is an increased risk that inappropriate and wasteful spending may occur.

Meals and Food Purchases Were Not Properly Supported

Approximately \$30,500 (17 percent of transactions) of all credit card use was for purchases in restaurants and grocery stores. We reviewed six catering charges totaling \$4,028; although five totaling \$3,570 had receipts on file, there was nothing attached indicating what they were for or who attended. For example, a School credit card was used for catering services for an 80-person event totaling \$989 in August 2020 and a 60-person event for \$800 in October 2020. For both charges, the School was unable to provide documentation indicating the purpose of these events or who attended.

The Head of School told us that the School held some annual events such as Spring Festival, Fall Festival, "Meal and Material Event" (to distribute school materials to students with meals provided), and Juneteenth Day. He told us the 80-person event was the Meal and Material Event and the 60-person event was the Fall Festival and they were held to build connections with students and families and welcome people.

The School also used grocery delivery services. Of the 170 transactions we reviewed, 10 were from a grocery delivery service vendor totaling \$3,833; nine totaling \$3,701 had receipts available. We reviewed the detail of the available receipts and found that the goods purchased totaled \$3,122, but the School incurred an additional \$579 (16 percent of the total) for delivery fees, sales tax, tips and service fees. In addition, each item purchased had a markup added to the price of the goods; therefore, the School was paying more for items than it would have had it purchased the goods directly at the grocery store. The Head of School told us it was more efficient to use grocery delivery services than sending someone to the store or establishing a position to do so. However, paying sales tax, tips and other unnecessary service fees could be considered a form of wasteful spending; especially if these fees are not closely reviewed and monitored.

The need or purpose of the charges documented for these 10 grocery store deliveries included “student activities,” “school culture,” “student store,” “snacks/food,” and “welcome back event.” Five of these deliveries totaling \$2,427 did not include the need or purpose of the purchase. The Head of School told us they purchased food and refreshments for staff to build teams and show appreciation for staff.

The School has not adopted written policies, procedures or other guidelines regarding purchases of meals, food and refreshments or the circumstances in which these types of purchases are appropriate and the forms of documentation which will be maintained. Without sufficient guidance to help limit and control food and meal purchases, the School is at increased risk for improper, excessive and wasteful spending.

Credit Card Charges Were Not Reviewed Timely or Pre-Approved When Required

The Treasurer’s review was not timely, adequate or in compliance with the School’s policy, and credit card purchases were not pre-approved when required. In the 24 months reviewed, the Treasurer reviewed the EFT report an average of 108 days after the credit card statement was paid. For example the Treasurer did not review,

- November 2019 credit card charges, totaling \$12,818, until July 25, 2020, seven months after the statement was paid on December 11, 2019.
- August 2020 credit card charges, totaling \$24,585, until March 11, 2021, six months after the statement was paid on September 11, 2020.

Although the Treasurer is not required by the purchasing policy to review the credit card charges prior to payment, reviewing them an average of 108 days after the payment is made could result in fraudulent charges or unauthorized payments being unresolved. Credit card charges should be reviewed prior to payment to ensure all charges are for appropriate purposes.

Prior to the COVID-19 pandemic (pandemic), the Treasurer received the EFT report, individual receipts and the charge justification documentation when she attended the monthly Board meetings. After the pandemic began, the Treasurer only reviewed the list of credit card charges. She told us that she went through some of the receipts with the Head of School at the end of the 2019-20 school year. However even before the pandemic, as indicated above, we determined that sufficient supporting documents such as receipts and the need or purpose of the charges were not always on file and, therefore, were not reviewed by the Treasurer.

The School has not adopted written policies, procedures or other guidelines regarding purchases of meals, food and refreshments. ...

In addition, the purchasing policy states that an individual credit card charge should not exceed \$2,500, except with the Treasurer's approval. We reviewed all 18 credit charges over \$2,500 in our audit period totaling \$70,337 and found no evidence that the Treasurer pre-approved these charges as required by the policy. Some examples included \$5,125 for a telephone switch, \$3,738 for an online fundraising platform and \$2,987 for student t-shirts. The Head of School told us that he was aware that the policy required pre-approval from the Treasurer for all charges in excess of \$2,500, but he disregarded it and did not enforce the policy requirement. The Treasurer told us she was not aware of the requirement and was never asked to pre-approve charges.

Allowing credit card users to order goods and services prior to obtaining Treasurer approval increases the risk for unauthorized or improper purchases.

What Do We Recommend?

The Board should:

1. Require the Head of School to:
 - a. Comply with the purchasing policy and retain sufficient supporting documentation to substantiate the appropriateness and purpose of credit card purchases, and
 - b. Obtain approval for any purchases over \$2,500.
2. Update the purchasing policy or adopt a written credit card policy to address monitoring and controlling credit card use. The policy should establish an appropriate approval and review process to ensure required supporting documentation is retained and purchases are approved prior to payment.
3. Require the Treasurer to review and approve all credit charges prior to making payment.
4. Establish written policies and procedures regarding purchases of food, refreshments and gifts that describe circumstances in which these types of purchases are appropriate and the forms of documentation that must be maintained.
5. Review service fees, delivery costs, sales tax and other unnecessary charges incurred on grocery store purchases and adopt written policies and procedures to properly limit and control these costs and prevent waste.

The Treasurer should:

6. Perform a timely and adequate review of monthly credit card charges to ensure sufficient documentation is available to support charges.
7. Require School officials to submit requests for pre-approval for individual charges over \$2,500, as required by the policy.

School officials should:

8. Ensure that all credit card charges are adequately supported and the need or purpose of all charges is documented.

Appendix A: Response From School Officials



June 30, 2022

Ms. Melissa Myers
Chief Examiner of Local Government and School Accountability
State of New York Office of the State Comptroller
Buffalo Regional Office
295 Main Street, Suite 1032
Buffalo, New York 14203-2510

Dear Ms. Myers:

The Board of Trustees has reviewed your draft report of Credit Cards Report of Examination 2022M-69 for Buffalo Collegiate Charter School for the period from July 1, 2019 through January 31, 2022. We appreciate your input and welcome the opportunity to strengthen the existing internal controls of our School.

We recognize the need to continually revisit and evaluate the effectiveness of our school operations and internal controls on an on-going basis. We believe the following response addresses the matter reported in the preliminary draft.

We now present for you our responses to the State Comptroller's recommendations:

Recommendations:

The Board should:

1. Require the Head of School to:
 - a. Comply with the purchasing policy and retain sufficient supporting documentation to substantiate the appropriateness and purpose of credit card purchases, and
 - b. Obtain approval for any purchase over \$2,500.
2. Update the purchasing policy or adopt a written credit card policy to address monitoring and controlling credit card use. The policy should establish an appropriate approval and review process to ensure required supporting documentation is retained and purchases are approved prior to payment.
3. Require the Treasurer to review and approve all credit charges prior to making payment.
4. Establish written policies and procedures regarding purchases of food, refreshments and gifts that describe circumstances in which these types of purchases are appropriate and the forms of documentation that must be maintained.
5. Review service fees, delivery costs, sales tax and other unnecessary charges incurred on grocery store purchases and adopt written policies and procedures to properly limit and control these costs and prevent waste.

The Treasurer should:

6. Perform timely and adequate review of monthly credit card charges to ensure sufficient documentation is available to support charges.



7. Require School officials to submit requests for pre-approval for individual charges over \$2,500, as required by the policy.

School officials should:

8. Ensure that all credit card charges are adequately supported, and the need or purpose of all charges is documented.

Response:

1. The Board will review the existing policies and procedures surrounding the use of credit cards and update them as necessary to minimize credit card use and ensure enhanced oversight and timely receipts submission. The Finance Committee will be responsible for oversight and accountability of any delinquencies. An approval routing process will be created to obtain the Treasurer or board designee's approval for purchases over \$2,500.

The school will issue multiple credit cards to a limited number of leadership team members so that each user specifically tracks their own credit card purchases. These users will be responsible for receipts to be submitted in a timely fashion. Additionally, the school will create a deadline for monthly submission of all credit card receipts.

2. The Board will review the existing policies and procedures surrounding the use of credit cards and update them as necessary to minimize credit card use and ensure enhanced oversight and timely reporting. The Finance Committee will be responsible for oversight and accountability of any delinquencies.
3. The school will work with the bank to adjust the timing of the automatic payment of the credit card to allow sufficient time for review prior to payment being made.
4. The Board will review the existing policies and procedures surrounding the purchases of food, refreshments, and gifts and adopt a written policy regarding these purchases to set clear expectations and parameters for appropriate use and receipt of proper documentation, including explanations and attendees where food is served.
5. The Board will review the existing policies and procedures surrounding the incurrence of service fees and delivery costs and adopt a written policy regarding these purchases to set clear expectations and parameters for appropriate use and the receipt of proper documentation, including explanations.

The school will educate the staff about the proper use of sales tax exemption forms and the expectations and appropriate use of delivery services. Procedures will be amended to ensure utilization of services from vendors that acknowledge the tax-exempt status of the school.

6. A recurring meeting will be established during the first week of the month to review the previous month's charges with the leadership team and the Treasurer, or Board Designee. An approval routing process will be created in the school's accounting software to ensure proper and timely approval prior to payment of all purchases.
7. The Board will review the existing policies and procedures surrounding the purchase limits and update them to ensure proper pre-approvals are obtained, as necessary. An approval routing process will be created to obtain the Treasurer or board designee's approval for purchases over \$2,500.
8. A recurring meeting will be established during the first week of the month to review the previous month's charges with the leadership team and the Treasurer, or Board Designee. An approval routing process will be created to ensure proper and timely approval prior to payment of all purchases.



BUFFALO COLLEGIATE
CHARTER SCHOOL

Very truly yours,

Brian Pawloski, Head of School

cc: Mike Anastasia, Director of Finance and External Partnerships
Jamel Perkins, Chairperson, Board of Trustees
Gwen Appelbaum, Vice Chair, Board of Trustees
Valerie Kaufman, Treasurer, Board of Trustees

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 and Board members and reviewed written policies to gain an understanding of the School's use of credit cards and the processes and procedures in place to control and monitor use.
- The School's credit card activity during our audit period included 1,190 credit card transactions totaling \$338,373. We used our professional judgment to select a sample of 170 credit card charges totaling \$128,070. We selected all individual charges over \$2,500, charges for food or meals, and transactions from vendors not typically used by schools.
- We reviewed the sample of credit card charges to determine whether the charges were pre-approved when applicable, itemized receipts and other required supporting documentation was on file, taxes were charged and purchases were for an appropriate School purpose.
- We discussed certain purchases with the Head of School to ascertain the purpose of items purchased.
- We compared the date of the Treasurer's monthly review of credit card charges to the date of payment to determine whether the review was timely (performed prior to payment).
- We compared charges from restaurants and grocery stores to total credit card transactions during our audit period to assess whether credit card use for these types of purchases was significant and/or appropriate.

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 written corrective action plan (CAP) 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. We encourage the Board to make the CAP available for public review.

Appendix C: Resources and Services

Regional Office Directory

www.osc.state.ny.us/files/local-government/pdf/regional-directory.pdf

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

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

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

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/files/local-government/publications/pdf/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

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

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/local-government

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

BUFFALO REGIONAL OFFICE – Melissa A. Myers, Chief Examiner

295 Main Street, Suite 1032 • Buffalo, New York 14203-2510

Tel (716) 847-3647 • Fax (716) 847-3643 • Email: Muni-Buffalo@osc.ny.gov

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