



Rochester Academy Charter School

Credit Cards

2022M-208 | June 2023

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Report Highlights

Rochester Academy Charter School

Audit Objective

Determine whether Rochester Academy Charter School (School) officials ensured credit card charges were properly approved, supported and for School purposes.

Key Findings

School officials did not ensure credit card charges were properly approved, adequately supported and for School purposes. Officials did not perform an effective and timely review of credit card charges. As a result:

- School officials approved and paid certain credit card charges without knowing what was purchased or whether the charges were for appropriate School purposes.
 - 35 percent (169 totaling \$68,523) of the tested credit card charges did not have a receipt or did not have an itemized receipt and 48 percent (232 totaling \$91,673) had an itemized receipt but no documented School purpose.
 - Subsequently, officials obtained and provided some of the missing receipts; however, 9 percent of the charges were still missing receipts.
- Officials did not establish adequate written credit card policies and procedures or ensure compliance with the established policy requirements.

Key Recommendations

- Update the financial control policies or adopt a written credit card policy.
- Ensure all credit card charges are adequately supported before payments are made.

School officials generally agreed with our findings and indicated they will initiate corrective action. Appendix B includes a comment on the School's response.

Background

The School is located in the City of Rochester in Monroe County. The New York State Board of Regents approved the School's initial charter in January 2008.

The School is governed by a six-member Board of Trustees (Board) that is responsible for the general management and control of the School's financial and educational affairs. The Director 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 Business Administrator is responsible for the day-to-day financial operations with assistance from other Business Office staff. The Treasurer is a Board member and reviews and approves credit card activity.

Quick Facts

Credit Card Charges	
July 4, 2020 – August 3, 2022	
Number	1,665
Total Dollar Amount	\$383,287
Credit Card Charges Tested	
Number	482
Total Dollar Amount	\$213,966

Audit Period

July 1, 2020 – December 9, 2022

Credit Cards

How Should School Officials Properly Oversee Credit Card Use?

To maintain a reasonable level of control over credit card use and help ensure that credit card charges are properly approved, adequately supported and for appropriate school purposes, a school board should adopt and enforce written policies addressing credit card use. These policies should identify individuals authorized to use credit cards, prior approval(s) needed, describe the types of purchases allowed, establish reasonable credit limits and describe the documentation necessary for supporting credit card purchases, including itemized receipts with enough detail to determine what was purchased and a documented school purpose.

School officials should develop supplemental written procedures for credit cards, such as those for managing and monitoring credit card use. School officials should also require cardholders to record their purchases in a credit card usage log when a credit card is shared by more than one individual. The log will allow officials to trace each transaction to the individual who used the credit card. In addition, school officials should ensure that the written policies and procedures are communicated to credit card users to ensure the users understand their responsibilities when using school credit cards.

To ensure credit card transactions for goods and services are for actual and necessary school expenditures, school officials should ensure credit card claims are audited before payment. The claims auditing process for credit cards should be an independent review of information contained in the claim packet, including appropriate approvals and a comparison of credit card statements to receipts and other documentation.

School Officials Did Not Provide Adequate Guidance for Credit Card Use

School officials did not establish adequate written credit card policies and procedures to provide guidance for credit card use. The School's financial control policy contains a limited section related to credit cards that authorizes the general use of School credit cards to be issued to staff as designated by the Director. In addition, it states credit cards are to be used solely for School business and adhere to the "personnel policy." The employee handbook, which the Business Administrator told us was the "personnel policy," requires an approved purchase requisition prior to making all purchases. However, School officials did not develop written policies or procedures for credit card use that included:

- Specific circumstances under which credit cards may be used,
- Requirements for determining when credit cards should be issued and canceled,

School officials did not establish adequate written credit card policies and procedures to provide guidance for credit card use.

-
- Who is authorized to use credit cards including procedures for sharing credit cards among staff,
 - Credit card limits, and
 - Clear descriptions of what documentation must be maintained for credit card purchases.

Additionally, officials did not enforce compliance with the limited policy requirements. For example, employees generally did not submit purchase requisitions prior to making purchases using the credit card, as required by School policy. The Business Administrator told us that they did not require prior approval through a formal purchase requisition and allowed employees to obtain prior approval verbally or by email. However, this practice disregarded the policy requirement. The Business Administrator and Director told us that starting in September 2022 the School fully implemented the use of a new purchasing software and required users to request approvals through the software for all purchases, including those using School credit cards.

Furthermore, officials did not provide non-business office staff, such as principals, custodians, the athletic director and facility manager – who are issued credit cards, with the financial policy to inform them of the responsibilities of having and using a School credit card. The Business Administrator and Director told us that they verbally inform anyone who is issued a credit card that they are required to submit receipts for purchases.

The Business Administrator told us that they did not previously discuss developing more detailed credit card policies or procedures because School officials thought the existing policy was adequate. However, without clear detailed policies and procedures, officials and staff did not have the proper guidance regarding their responsibilities for School credit card use. As a result, users did not submit all credit card receipts and officials were unable to determine whether all credit card purchases were for appropriate School purposes.

School Officials Did Not Perform an Adequate or Effective Review of Credit Card Charges

Although the business manager, currently referred to as Business Administrator, is responsible, per policy, to compare credit card statements and receipts, the Business Administrator told us that he did not perform these reviews because a secretary performed them. Also, the Business Administrator prepared a monthly summary report of credit card charges that was provided to the Treasurer along with the credit card statements. The Business Administrator told us that he did not review the individual receipts because it was too much for him to review each month. However, the current and former secretaries' and Treasurer's

reviews were limited. Because of the inadequate review process, the Business Administrator made credit card purchases and payments with limited review, which increased the School's risk for inappropriate purchases.

- The Treasurer told us that he reviewed the total amount due and scanned the transactions but did not review the credit card transactions in detail. In addition, he was not provided with, and did not review, any supporting documentation including requisitions, purchase orders or receipts.
- The secretaries also generally did not review available purchase requisitions or documented purchase approvals to compare to credit card purchases.

Therefore, there is minimal, if any, assurance that all credit card purchases have the required prior approvals before purchases are made. In addition, there was no documentation of the secretaries' review.

The Business Administrator told us that the secretaries were not always able to review the credit card statements timely and during the School's "busy purchasing season," might not be provided with a reason or receipt for the purchases. The Business Administrator and Director told us that the busy purchasing season was from the end of May through September because School officials were making purchases for the upcoming school year. However, this is not an acceptable reason to not review credit card purchases and exposes School funds to misuse. Alternatively, an increase in purchase activity should increase scrutiny and heighten the review of supporting documentation.

Furthermore, a former Assistant Business Administrator told us that during our fieldwork (after we requested to review credit card supporting documentation), the Business Administrator provided her with a credit card statement and asked her to follow up on a few purchases to get support and "make sure they were legitimate" purchases. She told us that this was a new request and she previously had not received any credit card statements to review. She also told us that she was able to determine that purchases made on the School's business account with an online retailer were appropriate, but was not able to determine the appropriateness of certain other purchases because they were not made on the School's account, and she was not provided with the receipts.¹

The current secretary, who started on August 8, 2022, told us that once she started reviewing credit card statements, the credit card users provided her with receipts, and she compared them to the credit card statements to identify any missing receipts so she could request them from the cardholders. If the cardholders were unable to provide the receipts, she contacted the vendors and requested a copy of the receipt. However, she told us that she is not able to

...[T]here is minimal, if any, assurance that all credit card purchases have the required prior approvals before purchases are made.

¹ Refer to Certain Credit Card Purchases Did Not Have Supporting Documentation for our testing. Our testing sample included all credit card charges from the online retailer.

obtain all receipts. Furthermore, the reviews generally occurred after the credit card bill had already been paid and did not include a review to determine whether the purchases were for appropriate School purposes.

In addition to the end of month payments made before review, we also found that interim payments were made during certain months. In 14 (56 percent) of 25 months reviewed, the monthly credit card payments totaled more than the statement balance due. The Business Administrator told us that additional payments were made during certain months with higher purchase activity to prevent the School from exceeding their credit limit.

However, making in-month payments prohibited officials from adequately reviewing and approving credit card purchases prior to payment. The Director told us that the School could still contest a charge after payment was made and the Business Administrator told us that he believed this was safer to do than increasing the School's credit limit. Although School officials are not required to review the credit card charges prior to payment, reviewing them after payment could result in fraudulent charges or unauthorized payments not being resolved. The ineffective review process increases the risk that inappropriate purchases could have been made and not detected.

Certain Credit Card Purchases Did Not Have Supporting Documentation

School officials issued credit cards to 12 employees including Business Office staff, building principals, custodians, the athletic director and facility manager. Additionally, cardholders sometimes allowed other staff members to use their cards but did not maintain a log of who had custody of the card at what time. The Director told us that they did not require a log because the School ultimately held the individual issued the card responsible for receipts for any purchases made using their card even if they gave the card to someone else to use. However, obtaining receipts from card users is more difficult when there is no documentation of who made the purchase. Additionally, if inappropriate purchases were made, it may be more difficult to hold the appropriate individual accountable.

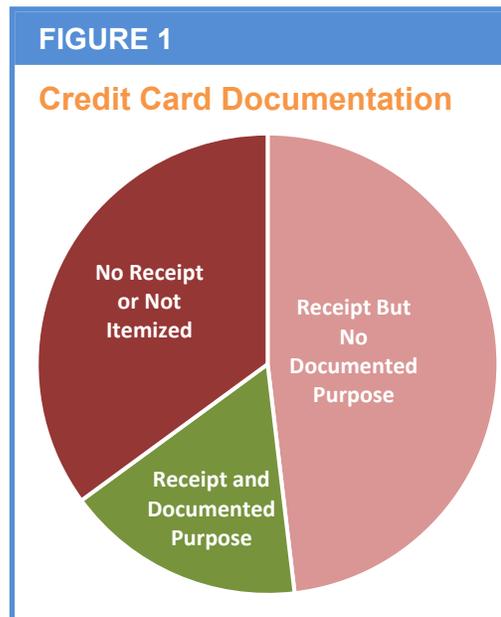
We reviewed 482 credit card charges totaling \$213,966. Of these, 401 (83 percent) totaling \$160,196 did not have both an itemized receipt and a documented School purpose (Figure 1).

- 81 charges (17 percent) totaling \$53,770 had an itemized receipt and a documented purpose.

- 232 (48 percent) charges totaling \$91,673 had an itemized receipt but no documented purpose.
- 169 (35 percent) charges totaling \$68,523 did not have a receipt or an itemized receipt.

We found that the deficiencies were spread among various cardholders and vendors.

The types of items purchased, and vendors used, such as those that could also be for non-School purposes, increases the importance of documenting the specific School purpose for each item purchased because the School-related purpose was not always apparent. For example:



- 94 purchases totaling \$28,515 were for maintenance and repair related supplies from home improvement and other vendors for items such as batteries, brooms, lights, drywall repair material, tools, plumbing supplies and a leaf blower. While most of these had receipts, 80 purchases (85 percent) totaling \$25,429 did not have a documented School purpose. The Business Administrator told us that when the Director, building principal or facility manager requests maintenance or a repair be made, they purchase the necessary supplies, and the custodians do the repairs or perform maintenance to save the School money. While this is a reasonable practice for repairs and maintenance, officials did not document the specific School maintenance or repair for each purchase to ensure the purchased supplies were for a School purpose.
- 65 purchases totaling \$7,258 were for food and refreshments, of which 58 purchases (89 percent) totaling \$6,024 did not have a documented School purpose and 16 purchases (25 percent) totaling \$1,561 did not have receipts. The Business Administrator told us that the School provides bagels for the teachers on Fridays and other food for staff development or Board committee meetings. However, the School has not adopted written policies, procedures or other guidelines regarding the purchase of food and other refreshments or the circumstances for which these types of purchases are appropriate.
- 25 purchases totaling \$1,661 were made at gas stations. While the majority of these purchases had receipts indicating they were for gas, no School

purpose was documented. The Business Administrator and a cardholder told us the gas was for School vehicles used for School travel. However, the specific School purpose, such as a particular field trip or event, was not documented. Therefore, there is limited assurance that the gas was used for School purposes.

- 11 purchases totaling \$5,285 were for various gift cards, of which eight purchases totaling \$3,755 did not have receipts. These gift cards were for annual teacher and staff appreciation gifts and had values that were mostly \$20 or \$25. Upon request for additional documentation, officials provided receipts with lists of who received certain gift cards. However, the lists were not available for those reviewing and approving the credit card purchases and officials could not provide a list of who received all gift cards. Therefore, someone reviewing the credit card documentation could not be sure the total number and amount of gift cards purchased was appropriate.

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 Business Administrator told us that they do not require receipts for recurring charges. He stated that vendors did not always send a receipt so they would have to download the documentation themselves and he did not think that they were necessary because the charges were for the same amount each month. However, there is no guarantee that the items or services purchased were not changed.

In addition, the Business Administrator told us that officials did not previously require users to document the School purpose for credit card purchases. The Director told us that as of September 2022, through the new purchasing software, the School requires users to document the purpose for credit card purchases on their requisition.

After our review, we informed School officials of the lack of receipts and documented School purpose for purchases. Officials subsequently provided itemized receipts for an additional 126 purchases totaling \$55,322 and a documented School purpose for an additional 20 purchases totaling \$16,494. However, this additional documentation had to be obtained from the cardholders and vendors and was not available or provided to those who reviewed the credit card statements and approved the payment of the credit card charges.

Due to the lack of documentation to support the business purpose of purchases, we were unable to determine whether all credit card purchases were for appropriate School purposes. While these expenditures appeared reasonable and

appropriate, many of the School's vendors provide goods or services that could also be used for personal purposes. Therefore, it is essential to document the business purpose and appropriate approvals for all credit card expenditures prior to payment.

What Do We Recommend?

The Board should:

1. Update the financial control policy or adopt a written credit card policy. The policy should establish an appropriate approval and review process to ensure the required supporting documentation is retained and purchases are for legitimate School purposes and approved prior to payment.
2. Prohibit sharing of credit cards or implement the use of written logs to track who has the credit cards and is making the purchases.
3. Ensure a thorough, independent, timely and documented review of credit card charges occurs prior to 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.

School officials should ensure that all credit card:

5. Users are provided with the written policies and procedures for credit card use and comply with the requirements.
6. Charges are adequately supported including an itemized receipt and a documented explanation for the need and School purpose.

The Business Administrator should:

7. Stop making interim payments in excess of the credit card balance due.

Appendix A: Response From School Officials



Rochester Academy Charter School

Respect * Accountability * Character * Success



May 12, 2023

Edward V. Grant Jr. Chief Examiner
NYS Office of the State Comptroller
Division of Local Government and School Accountability
Rochester Regional Office

Dear Mr. Grant Jr.,

Rochester Academy Charter School is in receipt of the draft audit report prepared by your office. This letter is the school's official response to the audit report. We appreciate the hard work and diligence demonstrated by the auditors in reviewing our financial records and identifying areas where improvements could be made.

In light of your recommendations, we have taken immediate steps to adopt a written credit card policy to ensure that all credit card charges are adequately supported before payments are made. Auditors were made aware of an online program that our organization started using in 2022. It already addresses the findings by ensuring all purchase requests are supported and approved. After the adoption of a credit card policy is completed, it will be submitted as part of the corrective action plan.

See
Note 1
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We take financial accountability very seriously and are committed to maintaining the highest standards of financial management throughout our organization. We value your efforts in helping us identify areas where improvements can be made.

Sincerely,

On behalf of the Rochester Academy Charter School

Mehmet Demirtas
Director/CEO

District Office	: 310 Hinchey Road, Rochester, NY 14624	Phone	: 585-621-2969	Fax:	585-486-6870
Elementary School	: 310 Hinchey Road, Rochester, NY 14624	Phone	: 585-235-0135	Fax:	585-486-6677
Middle School	: 841 Genesee Street, Rochester, NY 14611	Phone	: 585-235-4141	Fax:	585-232-1357
High School	: 1757 Latta Road, Greece, NY 14612	Phone	: 585-467-9201	Fax:	585-467-9250
School Website	: www.racschool.com	email	: info@rochester-academy.org		

Appendix B: OSC Comment on the School's Response

Note 1

While the audit report acknowledged the School's implementation of new purchasing software, the software does not address all of the audit findings. Officials and staff must ensure credit card charges are properly reviewed and comply with policy.

Appendix C: Audit Methodology and Standards

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

- We interviewed School officials and staff and reviewed written policies, procedures and the employee handbook to gain an understanding of the School's use of credit cards and the processes and procedures in place to make and approve purchases and review credit card activity.
- The School made 1,665 credit card purchases totaling \$383,287 from July 4, 2020 through August 3, 2022. We randomly selected three months with 201 credit card transactions totaling \$50,155 using a random number generator. We used our professional judgment to select an additional sample of 281 transactions totaling \$163,811, which included an additional two months selected based on the dollar amount (highest month and larger recent month), all purchases of more than \$1,000, and certain purchases from vendors that provided goods or services that could also be used for personal purposes. We also ensured the sample included purchases from all cardholders that used their cards. In total, we tested 482 credit card transactions totaling \$213,966 (56 percent) to determine whether they had adequate supporting documentation, such as an itemized receipt or invoice and documented School purpose, and purchases were for an appropriate School purpose.
- We discussed certain purchases with the Business Administrator to determine the School purpose.
- Using the August 2020 through August 2022 credit card statements, we compared the monthly balance due to the amounts paid and the total monthly purchases to the available credit limit. We calculated overpayments for individual months and the average amount overpaid in the months with overpayments. We also considered the timing of payments compared to the Treasurer's credit card review process to determine whether payments were made prior to review.

We conducted this performance audit in accordance with generally accepted government auditing standards (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.

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 it 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 D: 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

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