



Rochester Academy Charter School

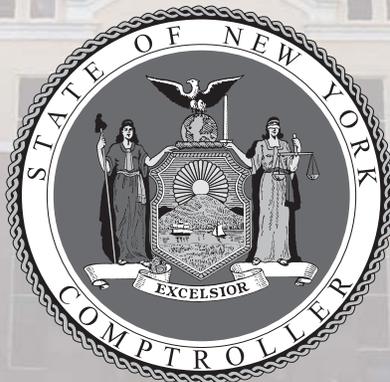
Purchasing

Report of Examination

Period Covered:

July 1, 2011 — March 1, 2013

2013M-144



Thomas P. DiNapoli

Table of Contents

	Page
AUTHORITY LETTER	2
INTRODUCTION	3
Background	3
Objective	3
Scope and Methodology	3
Comments of School Officials and Corrective Action	4
PURCHASING	5
Recommendations	8
APPENDIX A Response From School Officials	9
APPENDIX B Audit Methodology and Standards	11
APPENDIX C How to Obtain Additional Copies of the Report	12
APPENDIX D Local Regional Office Listing	13

State of New York Office of the State Comptroller

Division of Local Government and School Accountability

July 2013

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 Rochester Academy Charter School, titled Purchasing. 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 of the Education Law.

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

Respectfully submitted,

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

Introduction

Background

A charter school is a public school financed by local, State and Federal resources that is not under the control of the local school board and is governed under Education Law Article 56. 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 the fiscal/financial management plans which are part of the charter school application and renewal processes.

The Rochester Academy Charter School (RACS) is located in the City of Rochester, in Monroe County. The oversight for school operations is provided by the Board of Trustees (Board) which comprises five members. The Board is responsible for the general management and control of the school's financial and educational affairs. The Principal acts as the chief executive officer, oversees all the school operations and is responsible, along with other administrative staff, for the day-to-day management of the school under the direction of the Board. The Business Manager is responsible for the day-to-day operations of all financial aspects of the school. The Treasurer is also a Board Member and is responsible for auditing claims and signing checks.

RACS was established in 2008 under the NY Board of Regents' authorization and provides seventh grade through twelfth grade education. The RACS' 2011-12 fiscal year operating expenses totaled approximately \$3.3 million. These expenses were funded primarily with revenues derived from billing school districts for resident pupils and from State and Federal aid attributable to these pupils. As of March 2013, the RACS had approximately 300 enrolled students and 50 employees.

Objective

The objective of our audit was to review RACS's purchasing practices for the period July 1, 2011, to March 1, 2013. Our audit addressed the following related questions:

- Did RACS officials ensure purchases were valid expenditures of the school, they were supported by original detailed receipt, and goods and services were received prior to payment?

Scope and Methodology

Our overall goal was to assess the school's financial operations for the period July 1, 2011, to March 1, 2013. To accomplish this, we evaluated selected areas in general governance, financial oversight and condition, purchasing, cash receipts and disbursements, payroll and personnel services, inventory and asset control, and information technology. We found weaknesses concerning the controls over purchasing.

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 the findings and recommendations and indicated that they would take corrective action.

The Board has the responsibility to initiate corrective action. We encourage the Board to prepare a plan of action that addresses the recommendations in this report, and to 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 this plan available for public review.

Purchasing

The Board is entrusted with the responsibility of safeguarding school resources. The Board fulfills this responsibility, in part, by establishing an effective system of internal controls that provide RACS with reasonable assurance it is using its resources effectively. The objective of a procurement process is to obtain the best quality goods and services at the lowest possible price in compliance with RACS policies and procedures, and relevant laws.

Because charter schools have fewer legal operational requirements than traditional public schools, it is imperative the Board take an active oversight role and establish guidelines for the business office and other staff to follow when purchasing goods and services for the school. A good business practice would dictate that such guidelines should include: making full payment of bills from original receipts; only paying bills that are supported by detailed invoice, receipt or other supporting documentation; only paying for goods and services after they are received by the school; and ensure compliance with the school charter and applicable laws. Most of the regulations for a charter school are contained in the entity's by-laws, charter agreement, and the fiscal/ management plans, which are part of the charter school application.

RACS did not have sufficient Board approved policies and procedures over the procurement process.¹ Such policies and procedures would provide guidance on when and how to solicit competition, documentation requirements to support purchasing decisions and payments. As a result of this weakness, we reviewed 76² disbursements totaling \$320,000 to determine if the disbursements were for school purposes, properly supported by a detailed original receipt and, where applicable, to ensure compliance with the school's charter. We found that RACS used restrictive practices in some of their purchases, which undermine the intent of true competition. As a result, we took exception the following purchases:

Receipts – We found that 20 of 76 disbursements totaling approximately \$58,200 did not contain the original receipt or did not contain sufficient supporting documentation for the service provided. For example, RACS contracted with a vendor to provide supplemental

¹ Procurement guidance was limited to the school's charter which stipulates "Any expense or contract that exceeds \$5,000 has to be presented to the BOT (Board of Trustees) along with three cost estimates and needs to be approved by the BOT." At the August 17, 2012, meeting of the Board, this amount was increased to \$20,000.

² Our sample includes 50 disbursements selected randomly using a software random number generator and 26 judgmentally selected disbursements.

educational services for qualifying students, but did not maintain sufficient attendance logs for students who benefited from this service. Payments to this vendor totaled over \$27,000. The original documentation provided to OSC, which was the support on which payment to this vendor was approved, was a single page invoice from the vendor which listed the dates that services were provided with no additional information such as who the instructor was or the number of students who attended the sessions.

The invoices from this vendor were dated the first of the month and billed the school for services that had not yet been provided by the vendor. For instance, the vendor submitted a bill to RACS dated February 1, 2012, and included services yet to be provided on February 4, 11, and 18, 2012. RACS paid the bill with a check dated February 6, 2012, thus paying for services before they were actually provided. We asked RACS officials to provide support to ensure that the tutoring services were provided and they were able to provide us with some student sign-in sheets; however, documentation was still lacking for some of the dates which services were billed for.

In addition, we noted the contract called for the payment for tutoring 40 students regardless of how many students actually attended the tutoring sessions. A review of the student sign-in sheets shows that even the highest attended tutoring session only had 16 students in attendance, followed by 12 and 11 in the next most attended sessions, with all the remaining sessions having between two and nine students in attendance. RACS officials told us the supplemental educational services provided by the vendor were required by the State and the school had trouble even finding a vendor who was willing to provide the services for a small school.

When invoices are not paid from the original receipts, there is an increased risk of making duplicate payments by the school. RACS has made several payments to vendors from faxed receipts or quotes instead of from an original receipt. Over the period of one year, the RACS purchased 124 toner cartridges for laser printers from one vendor and paid approximately \$3,000 from faxed invoices from the vendor. In addition the school paid \$4,997 from a vendor quote instead of from an original invoice, which RACS officials claim was a down payment for cafeteria tables.

Split Payments – We found eight of the 76 transactions, totaling approximately \$48,000, which appear to be split payments to vendors on purchase orders that were for greater amounts. In general, payments made to vendors should be made from the original receipt and for the total amount owed; only in specific circumstances should the school make split payments to a vendor, for example, when experiencing

cash flow problems. The splitting of payments to vendors is generally not a good business practice as the school could be paying for items before they were received, and it increases the chances of making an overpayment to the vendor. We noted the following purchases from what appear to be separate vendors:

- Vendor A - Purchased tables, chairs and other furniture in July 2012, for a total of \$19,089.08. This purchase was paid for with two payments: \$11,902.04 on July 13, 2012, and the remaining \$7,187.04 on September 12, 2012.
- Vendor B - Purchased \$9,999.74 of cafeteria tables and chairs in July 2012, but split the payment to the vendor into two payments: \$4,997.37 on July 13, 2012, and the remaining \$5,002.37 on September 12, 2012.
- Vendor C - Purchased office furniture, tables, chairs, and desks totaling \$9,425.36 and was paid in two payments: \$4,712.68 on July 13, 2012, and \$4,712.68 on September 12, 2012.
- Vendor D - Purchased tables and chairs for a total of \$9,427.50 and was paid in two separate payments: \$4,713.75 on July 13, 2012, and \$4,713.75 on September 12, 2012. According to the website listed on the vendor's invoice, this vendor sells school uniforms. We did not find any evidence that this vendor sold tables and chairs.

Our review did not show any duplicate or overpayments to the vendors; however, it did disclose concerns about federal tax information on file for the vendors previously noted. Each of the split payments were made to what initially appeared to be four different vendors; however, when we reviewed copies of the canceled checks, we discovered that checks to the four vendors in our sample were endorsed by the same individual. We asked the Business Manager to see if he knew of any relationship between the vendors; he acknowledged that he did. The Business Manager told us that he believed the vendors in question were members of a partnership that had the same owner. The Business Manager then provided us with copies of each vendor's Internal Revenue Service Form W-9 "Request for Taxpayer Identification Number and Certification" (W-9).

Each copy of the vendors' W-9 contained the same mailing address, federal employer identification number and signatory. The addresses for all four vendors' W-9 were the same. However, we compared the W-9 addresses to addresses listed on vendor invoices and found that only two addresses matched the W-9: that of Vendor A and Vendor

D. The addresses on the other two vendor invoices did not match the address listed on the W-9.

We also noted the school purchased approximately \$14,000 in school uniforms (from Vendor D as previously noted) in three apparent separate transactions. When we reviewed the payments, we noted the invoices from the vendor were all dated August 2, 2011, and were consecutively numbered, invoice 1308 for \$4,628, invoice 1309 for \$4,977 and invoice 1310 for \$4,313. We noticed that each invoice is slightly less than the \$5,000 threshold that would require Board approval for the purchase.

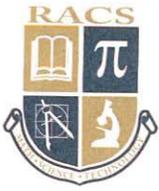
Recommendations

1. The Board should establish a comprehensive purchasing policy and ensure the Business Manager implements procedures to comply with that policy.
2. The Treasurer should ensure that claims are only paid from an original receipt that contains sufficient detail to support the expenditure.
3. The Business Manager and Treasurer should discontinue the practice of making split payments to vendors.

APPENDIX A

RESPONSE FROM SCHOOL OFFICIALS

The RACS officials' response to this audit can be found on the following page.



7/9/13

Office of the State Comptroller
The Powers Building
16 W. Main Street, Suite 522
Rochester, NY 14614

To whom it may concern:

The purpose of this correspondence is to acknowledge that the Rochester Academy Charter School has received the draft copy of the audit conducted by the New York State Comptroller's Office.

We would like to thank the Comptroller's office for its guidance and recommendations on the issues identified in the examination of purchasing practices for the period July 1, 2011 to March 1, 2013.

The Rochester Academy Charter School acknowledges the auditor's recommendations and is implementing a corrective action plan to address each area. All findings and recommendations will be addressed in the corrective action plan, which will be submitted to the Comptroller's Office within the allotted time.

We thank the Comptroller's Office for its through work and invite the Comptroller's staff to return and examine the improvements that we have and will put in place.

Respectfully submitted,

Mahmut Gedemenli
Board President
Rochester Academy Charter School

APPENDIX B

AUDIT METHODOLOGY AND STANDARDS

Our overall goal was to assess the adequacy of the internal controls put in place by officials to safeguard school assets. To accomplish this, we performed an initial assessment of the internal controls so that we could design our audit to focus on those areas most at risk. Our initial assessment included evaluations of the following areas: general governance, financial oversight and condition, purchasing, cash receipts and disbursements, payroll and personnel services, inventory and asset control, and information technology.

During the initial assessment, we interviewed appropriate RACS officials, performed limited tests of transactions, and reviewed pertinent documents, such as school policies and procedures manuals, Board minutes, the school's charter, and financial records and reports. 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 purchasing for further audit testing. To accomplish the objective, our examination included the following steps:

- We interviewed school officials, staff, and Board members involved in the business operations of the school.
- We reviewed the school charter, by-laws, annual report, and Board meeting minutes.
- We reviewed 76 disbursements during our scope period. We randomly selected 50 transactions using a software random number generator. We also judgmentally selected 26 additional transactions for testing based on the risk of the initial sample.
- We reviewed canceled checks, vendor invoices, vendor websites, and any additional information as provided by the school for all disbursements selected for testing.
- We reviewed the school's 990.

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.

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