



Tapestry Charter School

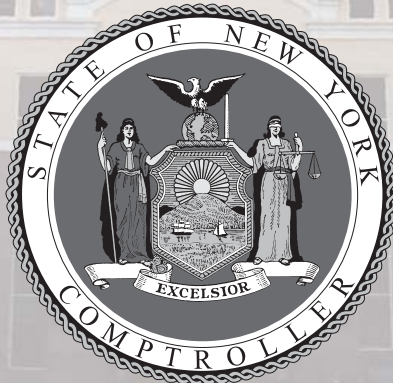
Internal Controls Over Credit and Debit Cards

Report of Examination

Period Covered:

July 1, 2011 — August 16, 2013

2013M-271



Thomas P. DiNapoli

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State of New York Office of the State Comptroller

Division of Local Government and School Accountability

November 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 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 operations and school governance. Audits also can identify strategies to reduce costs and to strengthen controls intended to safeguard school assets.

Following is a report of our audit of the Tapestry Charter School, entitled Internal Controls Over Credit and Debit Cards. 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 school officials to use in effectively managing operations and in meeting the expectations of 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 less 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.

The Tapestry Charter School (School), located in the City of Buffalo, Erie County, is governed by a Board of Trustees (Board) that currently has 11 members, including two parent representatives. The Board is responsible for the general management and control of the School's financial and educational affairs. The Board appoints an Executive Director who is responsible, along with other administrative staff, including the Chief Operating Officer, for the day-to-day management of the School under the direction of the Board. The School contracts with an outside accounting firm to perform various financial duties.

The School's operating expenses for the 2012-13 fiscal year were approximately \$10 million. These expenses were funded with revenues of approximately \$10 million, derived from billing area school districts for resident pupils and from certain State and Federal aid attributable to these pupils. The School has approximately 800 students in kindergarten through twelfth grade. The School has three general-purpose credit card accounts and one store credit card account. The School also has a debit card assigned to one of its employees. During the 2011-12 and 2012-13 fiscal years, the School incurred charges totaling \$197,000 and \$184,000, respectively, on these accounts.

Objective

The objective of our audit was to examine the School's internal controls over credit and debit card use. Our audit addressed the following related question:

- Did the Board and School officials establish appropriate controls over the use of credit and debit cards?

Scope and Methodology

We examined the School's credit and debit card activity for the period July 1, 2011, to August 16, 2013.

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 agreed with the findings and recommendations and indicated that they have taken 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 Corrective Action Plan (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 School Board Secretary's office.

Credit and Debit Cards

An effective system of internal controls requires that the Board adopt a sound credit card policy. It is important that the policy identifies the individuals who are authorized to use the credit cards, provides reasonable dollar limits for purchases and describes the types of purchases allowed and the documentation to support the purchases. It should also establish control procedures over the custody of the credit cards and the monitoring of their use and address the methods to recover moneys from improper use of the cards. School officials should ensure that credit cards do not allow for cash advances and should request that the card provider block certain types of vendors or purchases by using merchant category codes. Furthermore, if the Board authorizes the use of debit cards, School officials should ensure that appropriate control procedures are implemented for this high-risk disbursement option.

While the School's credit card policy adequately addresses many control procedures, certain additional controls should be considered. The policy does not define how many credit card accounts may be established, limit the number of credit cards to be issued, or address to whom the cards may be issued. The policy also does not define credit limits. We also found that the School did not ensure that all employees who were issued a credit card signed the policy to acknowledge their awareness of the procedures, as required by the policy. We found that, of the 12 employees issued credit cards, only seven had signed a copy of the policy. In addition, School officials did not ensure that credit card accounts were established in a manner that complied with the policy provision prohibiting cash advances. The School also has a debit card policy, which provides appropriate guidance regarding proper usage and pre-approval requirements.

We reviewed monthly credit card statements for the 2011-12 fiscal year totaling \$195,000 and the 2012-13 fiscal year totaling \$181,000 and found that 18 credit cards were issued from four credit card accounts to 12 individuals during our audit period. The combined credit limit and cash advance limit on those four credit card accounts were \$87,000 and \$15,000, respectively, as of May 2013.¹ We did not identify any cash advances that were made during the 2011-12 and 2012-13 fiscal years. According to the Chief Operating Officer, cash advances are never used. However, the School's credit cards' total cash advance limit of \$15,000 exposes the School to undue risk.

¹ One credit card account with a credit limit and cash advance limit of \$10,000 and \$2,000, respectively, was closed during our audit field work in July 2013.

Individually, certain School officials had significant credit and cash limits within the accounts' total limits. The Executive Director and the Administrative Manager each have three credit cards with a combined credit limit and cash advance limit of \$77,000 and \$13,000, respectively. In addition, the Chief Operating Officer has two credit cards with a combined credit limit and cash advance limit of \$75,000 and \$13,000, respectively. The High School Principal also has two credit cards with a combined credit limit and cash advance limit of \$65,000 and \$5,000, respectively.

According to the Chief Operating Officer, the School has different credit card accounts because some vendors do not accept certain credit cards. Other than the need to request an increase to one account to purchase computers, School officials did not have an explanation for maintaining such high credit limits on the cards. Such high credit limits, when not required to meet the routine needs of the School, increase the risk of loss unnecessarily.

We judgmentally selected an August 2012 credit card statement with transactions totaling \$38,972 for further review. We found that School officials did not enforce the policy requirement that the Board pre-approve purchases of more than \$1,000. Four purchases totaling \$34,836 exceeded the \$1,000 threshold but were not pre-approved by the Board as required. The purchases were for 21 computers, books for professional development and for students and airfare for student trips. Overall, we found that the activity was properly supported. We also found that all credit card payments were reviewed and approved by both the Chief Operating Officer and one of the other authorized check signers before payment was made. We verbally communicated to School officials other miscellaneous issues we found during our review.

In addition, we reviewed debit card activity totaling \$1,895 during the 2011-12 fiscal year and \$2,648 during the 2012-13 fiscal year and found that the card was used primarily to purchase vehicle fuel. Although these purchases appeared to be for valid School purposes, a debit card has a high inherent risk because it is directly linked to the School's main checking account. This checking account had a balance of \$1.4 million at May 31, 2013. Allowing debit cards to draw from this account places significant School funds at risk of being misappropriated.

We also found that School officials have not requested that the card providers establish restrictions on the cards, such as limiting the types of vendors or purchases that can be made by using merchant category codes or setting up email notifications to a designated School official for large or unusual purchases.

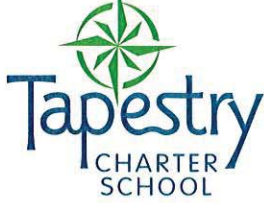
Without a comprehensive and enforced policy, the School has limited control over the use of credit and debit cards. The School has an increased risk that it will pay for unauthorized or excessive purchases and have difficulty recovering any unauthorized or questionable charges.

Recommendations

1. The Board should amend its credit card policy to address the number of credit card accounts and cards to be maintained, issuance criteria and applicable credit limits. The Board should periodically review and update the policy accordingly.
2. The Board should ensure that credit card accounts do not allow cash advances.
3. The Board should reduce the credit limits on the cards to amounts needed for normal operations.
4. School officials should ensure that all employees issued credit cards sign the policy to acknowledge their responsibilities with respect to card use.
5. School officials should ensure that the credit card policy – specifically, the pre-approval for purchases over the \$1,000 threshold – is enforced.
6. The Board should give strong consideration to ending the use of debit cards. If it chooses to continue using debit cards, appropriate restrictions and notification controls should be imposed to provide greater assurance that School funds are not exposed to substantial loss.
7. The Board and School officials should consider having the School’s credit card providers block certain types of vendors or purchases through the use of merchant category codes.
8. School officials should contact the credit card providers and determine what, if any, notification control procedures are available and implement such controls as the Board deems appropriate.

APPENDIX A
RESPONSE FROM SCHOOL OFFICIALS

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



November 1, 2013

Mr. Robert E. Meller
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 Mr. Meller:

The Board of Trustees of Tapestry Charter School has reviewed your draft report of Internal Controls Over Credit and Debit Cards Report of Examination for Tapestry Charter School for the period from July 1, 2011 to August 16, 2013. We appreciate your input and welcome the opportunity to strengthen the existing internal controls of our School.

Due to growth the School has experienced in the past years, we recognize and appreciate the need to revisit and evaluate the effectiveness of our internal controls on an on-going basis. We also appreciate the opportunity to have met with you at the exit conference on October 22, 2013, which afforded us the opportunity to address findings and further clarify certain items noted in your preliminary report. We believe the following responses address the matters reported in the preliminary draft and we are committed to developing a corrective action plan within 90 days of the date of the preliminary report.

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

1. Recommendation:

The Board should amend its credit card policy to address the number of credit card accounts and cards to be maintained, issuance criteria, and applicable credit limits. The Board should periodically review and update the policy accordingly.

Response:

The Board has modified its credit card policy in order to address the number of credit card accounts to be maintained. The policy has been revised to lower the credit limits and the number of credit cards accounts have been reduced.

2. Recommendation:

The Board should ensure that credit card accounts do not allow cash advances.

Response:

Management has reviewed all credit card accounts to ensure that they do not allow cash advances, consistent with the School's existing policy which prohibits cash advances.

3. Recommendation:

The Board should reduce the credit limits on the cards to amounts needed for normal operations.

Response:

Management has reviewed all of the credit card limits in order to ascertain that the credit cards have sufficient limits necessary for normal operations. Credit limits in excess of amounts necessary for normal operations have been reduced.

4. Recommendation:

School officials should ensure that all employees issued credit cards sign the policy to acknowledge their responsibilities with respect to card use.

Response:

Management has reviewed and revised the credit card policy as necessary and all employees listed as authorized users have signed the credit card policy to acknowledge their responsibility with respect to credit card use.

5. Recommendation:

School officials should ensure that the credit card policy – specifically, the pre-approval for purchase over the \$1,000 threshold – is enforced.

Response:

Management has established additional procedures to ensure that the pre-approval process for credit card purchases over the \$1,000 threshold is enforced.

6. Recommendation:

The Board should give strong consideration to ending the use of debit cards. If it chooses to continue using debit cards, appropriate restrictions and notification controls should be imposed to provide greater assurance that School funds are not exposed to substantial loss.

Response:

Although there was a policy restricting the use of the School's debit card, the use of the debit card has been discontinued.

7. Recommendation:

The Board and School officials should consider having the School's credit card providers block certain types of vendors or purchases through the use of the merchant category codes.

Response:

The Board and School officials will consider having the School's credit card providers block certain types of vendors or purchases through the use of merchant category codes.



8. Recommendation:

School officials should contact the credit card providers and determine what, if any, notification control procedures are available, and implement such controls as the Board deems appropriate.

Response:

School officials have contacted the credit card providers in order to determine what control procedures are available in order provide an additional layer of control to credit card use.

Very truly yours,

Joy Pepper, School Director

cc: Teo Balbach, President – Board of Trustees
Kevin Koch, Treasurer – Board of Trustees
Eric Klapper, Chief Operating Officer

APPENDIX B

AUDIT METHODOLOGY AND STANDARDS

The objective of our examination was to assess the School's financial operations. 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, cash receipts and disbursements, purchasing, payroll and personal services, information technology and inventory and asset controls.

During the initial assessment, we interviewed appropriate School officials, performed limited tests of transactions and reviewed pertinent documents, such as School by-laws, procedures, Board minutes and financial records and reports. After reviewing the information gathered during our initial assessment, we determined that the controls appeared to be adequate and that limited risk existed for most of the financial areas we reviewed. We then decided upon the reported objective and scope for the area with the greatest risk. We examined the School's credit card and debit card activity for the period July 1, 2011, to August 16, 2013. Our audit included various procedures to gather relevant evidence concerning our stated objective, as follows:

- We interviewed School officials, Board members and the accounting firm's staff.
- We reviewed the School's credit card and debit card policies.
- We reviewed credit card statements to identify credit and cash limits, who the credit cards were issued to and whether any cash advance activity had occurred.
- We compared a list of employees that signed the credit card policy to a list of employees who were issued credit cards.
- We reviewed monthly credit card payments for the 2011-12 and 2012-13 fiscal years to verify whether those payments were properly approved.
- We reviewed one credit card account's detailed transactions for the month of August 2012 to verify that supporting documentation was on file, purchases were for School purposes and the Board approved purchases over a certain dollar threshold. We selected this month to review without any known bias.
- We reviewed the School's checking account bank statements for the 2011-12 and 2012-13 fiscal years for debit card transactions.

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.

APPENDIX C

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