
Audit Report

Health Sciences Charter School

For the Period

July 1, 2014 through March 31, 2017

CH-0816-02

January 18, 2018

**The University of the State of New York
THE STATE EDUCATION DEPARTMENT
Office of Audit Services
Albany, New York 12234**





THE STATE EDUCATION DEPARTMENT / THE UNIVERSITY OF THE STATE OF NEW YORK / ALBANY, NY 12234

Thalia J. Melendez, Director of Audit Services
New York State Education Department
Office of Audit Services
89 Washington Avenue, EB 524
Albany, New York 12234
Thalia.Melendez@nysed.gov
518 473-4516

January 18, 2018

Dr. Hank Stopinski
Principal
Health Sciences Charter School
1140 Ellicott Street
Buffalo, NY 14209

Dear Dr. Stopinski,

Enclosed is the final report (CH-0816-02) for the audit of Health Sciences Charter School for the period July 1, 2014 through March 31, 2017. The audit was conducted pursuant to Section 2853(2) of the Education Law.

Ninety days from the issuance of this report, District officials are asked to submit a report on actions taken because of this review. This required report will be in the format of a recommendation implementation plan and it must specifically address what actions have been taken on each recommendation.

I appreciate the cooperation and courtesies extended to the stall during the audit.

Sincerely,

Thalia J. Melendez

Attachments

c: M. Elia, E. Berlin, S. Cates-Williams, B. Cechnicki, C. Coughlin, D. Frank, T. Walters, J. Bumbalo, D. Palmer (Board President), G. Altman (CFO), J. Conroy (DOB), J. Dougherty.

Executive Summary

Background and Scope of the Audit

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. Charter schools generally have fewer legal operational requirements than traditional public schools. Most of the regulations for a charter school are contained in Article 56 of Education Law and the school's bylaws, charter agreement and fiscal/financial management plans. Charter schools are required to set both financial and academic goals, and a school's renewal of its charter is dependent on meeting these goals.

Health Sciences Charter School (School), is located in the City of Buffalo in Erie County. The School serves approximately 440 students in grades 9 through 12. Its charter was first established in July 2009 by the Board of Regents. The School is chartered through 2020, at which time it must apply to renew its charter. The School's Board of Trustees (Board) is comprised of thirteen members that governs the School. The Board is responsible for the general management and control of the school's financial and educational affairs.

The Office of Audit Services conducted an audit of Health Sciences Charter School for the period July 1, 2014 through March 30, 2017. This was a performance audit and our objectives were to ensure the adequacy and reliability of internal controls including the policies and procedures for collecting and reporting financial data.

Audit Results

The audit found that the School has some of the necessary internal controls needed for an adequate control system. However, we found:

- The Board did not establish some of the necessary policies and procedures needed for a strong internal control environment.
- The Board failed to follow its own policies by not approving expenses over \$5,000 and formal competitive bidding requirements for expenses over \$10,000.
- The School did not independently account for fundraising and Student Club Account funds separately from operating funds.
- There is a lack of separation of duties.
- Three transactions were unauthorized on the School's credit card.
- The School did not always maintain adequate documentation to support purchases.
- In violation of its policy, the School paid credit card late fees and interest. Additionally, the school paid sales tax when the School is tax exempt.
- School officials routinely made purchases using personal credit cards instead of the School credit card bypassing internal controls.
- Lastly, we found billing errors in invoices to school districts for student tuition and special education services.

Comments of School Officials

School officials' comments about the findings and conclusions were considered in preparing this report. Their response is included in Appendix B.

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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. Charter schools generally have fewer legal operational requirements than traditional public schools. Most of the regulations for a charter school are contained in Article 56 of Education Law and the school's bylaws, charter agreement and fiscal/ financial management plans. Charter schools are required to set both financial and academic goals, and a school's renewal of its charter is dependent on meeting these goals.

Health Sciences Charter School (School), is located in the City of Buffalo in Erie County. The School serves approximately 440 students in grades 9 through 12. Its charter was first established in July 2009 by the Board of Regents. The School is currently chartered through June 2020, at which time it must apply to renew its charter. The School's Board of Trustees (Board) is comprised of thirteen members that governs the School. The Board is responsible for the general management and control of the school's financial and educational affairs.

Audit Scope, Objectives and Methodology

The Office of Audit Services conducted an audit of the School for the period July 1, 2014 through March 30, 2017. This was a performance audit and our objectives were to ensure the adequacy and reliability of internal controls including the policies and procedures for collecting and reporting financial data.

To accomplish our objectives, we reviewed applicable laws, regulations, policies and procedures; interviewed School personnel and Department management and staff; and examined records and supporting documentation and transactions. We also tested expenditures, including payroll records, school credit card purchases, cash receipts and personal credit card reimbursements, to determine if they were reasonable and necessary.

We conducted our audit in accordance with modified Generally Accepted Government Auditing Standards (GAGAS). GAGAS standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. In addition, GAGAS requires a review performed by a team of external peers, independent of the audit organization, at least every three years. Because of recent changes in administrative personnel, however, an external peer review was inadvertently not conducted. An internal “Red Book” review pursuant to the International Standards for the Professional Practice of Internal Auditing Standards was conducted. It is contemplated that both an updated internal review and external peer review will be performed within the next year. We feel that not having an external audit peer review has had no material effect on the assurances provided.

Comments of School Officials

School officials' comments about the findings were considered in preparing this report. Their response to this report will be included as an appendix to the final report.

Governance

The School's Charter, approved by the Board of Regents, establishes the legal authority for the School to operate. The board of trustees of a charter school has ultimate responsibility for the overall management and operation of the school subject to the limitations of law.

The School is not in full compliance with all the terms of its Charter. The Board of Trustees (Board) does not maintain sufficient oversight over school operations by not having necessary policies and procedures in place, approving expenses over \$5,000, and following bidding requirements.

Policies and Procedures

According to the School's Charter, the School shall maintain appropriate governance and management procedures as well as have financial controls in place.

We requested policies and procedures to determine if they followed their charter agreement. We found the School lacked written policies and procedures in the following areas: accounts payable, cash receipts, inventory, travel, records retention, student billing, payroll, fundraising, and an information technology (IT) policy for terminating user access rights.

The School failed to develop and maintain written policies and procedures. Having these controls in place helps ensure that the Board and management will achieve its goals and objectives. Without them, management has little assurance goals and objectives will be achieved.

Board Approval

The School's Procurement and Purchase Requisition policy states that the acquisition of all goods or services exceeding \$5,000 requires approval from the Board. All procurement of goods and services exceeding \$10,000 requires competitive bidding where quotes are obtained from at least three providers of the product or similar product.

We tested twenty other than personal services costs (OTPS) from the School's expense detail reports. Nine of the twenty

costs tested were for over \$10,000, none of which had documentation indicating that the Board approved the cost and eight of the nine had no evidence of required competitive bidding.

The Board failed to follow its existing policies by not approving expenses over \$5,000 and did not comply with their own competitive bidding requirements. When procurements are made without the required approvals or seeking competitive bids, the Board does not have assurance that goods and services were procured in the most economical way, which can lead to overspending.

Recommendations

1. Develop written policies and procedures in the areas of accounts payable, cash receipts, inventory, travel, records retention, student billing, payroll, fundraising, and an IT policy for terminating user access rights.
2. Enforce your policies requiring Board approval for expenses over \$5,000.
3. Obtain at least three competitive bidding quotes for goods and services over \$10,000.

Internal Control

Internal control is a process effected by an organization's structure, people, and management information systems, and is designed to help an organization accomplish specific goals or objectives. While the overall purpose of internal control is to help an organization achieve its mission, it also helps to:

- promote orderly, economical, efficient and effective operations, and produce quality products and services consistent with the organization's mission;
- safeguard resources against loss due to waste, abuse, mismanagement, errors, and fraud;
- promote adherence to laws, regulations, contracts, and management directives; and
- develop and maintain reliable financial and management data, and accurately present that data in timely reports.

The Board has the responsibility to monitor the charter schools' internal controls. Management should ensure that adequate accounting and reporting systems are in place so that accurate, timely, and complete financial records are maintained and can be reflected in periodic reports to the board, public, and State. Reports generated by the accounting system are the basis for many decisions made by the board and administration.

The School had some internal control systems in place; however, we found that the School combined donations with operating funds, did not adequately account for gift cards and bus tokens, and lacked a segregation of duties.

Combining Funds

The Financial Accounting Standards Board's Statement of Financial Accounting Standards 117 states that organizations are to report gifts of cash and other assets as restricted if they are received with donor stipulations that limit the use of the donated assets. When the donor restriction expires, temporarily restricted assets are reclassified to unrestricted assets and are reported in the statement of activities as assets released from restriction.

The School deposited \$46,047 into the Students Club Account (SCA) checking account in November 2013. The School uses this account to pay for student activities. Documentation provided showed \$850 of the \$46,047 belonged in the SCA. Therefore, \$45,197 did not belong. In November 2014, a year after making the deposit, the School transferred \$50,000 from the SCA to their operating account. This resulted in the School overdrawing the account by \$4,803 (\$50,000 - \$45,197) which should not have been part of the transfer.

The School also made deposits into its operating account totaling \$2,235 in December 2014. The deposits consisted of donations from the School's annual holiday fundraising drive in which donations are solicited for gifts and food for students and their families. However, we found that these donations were combined with the School's operating funds and were not isolated and accounted for separately.

School operating funds were combined with SCA funds and inappropriately deposited in the SCA account. Since funds were not accounted for separately, the School withdrew funds that should have remained in the SCA. Officials stated that in the past, donations were small and spent quickly so the School did not account for the funds separately.

SCA funds were used to support school operations when they should have been used to support student activities. Timely reconciliations of accounts would have discovered the combined donations. When donations are combined with operating funds, the likelihood that donations could be used for inappropriate purposes is increased.

Gift Cards and Bus Tokens

According to the School's Charter, the School shall maintain appropriate governance and management procedures as well as have financial controls in place.

The School purchased gift cards ranged in value from \$5 to \$500 and totaled \$23,095 for the audit period. School officials stated gift cards were used for various student and staff awards and recognitions. However, we found little accountability between the number of gift cards purchased and who received them. For example, the School purchased \$450 in Subway restaurant gift cards (30 cards) on

November 9, 2016 for a student awards ceremony. We requested documentation showing the recipients. The School provided a listing of 174 student names, but, there was no way to determine which 30 of the 174 students received a Subway restaurant gift card. In another instance, the School purchased \$50 in Tim Hortons gift cards (10 cards) for staff achievements. Again, there was no accountability on who received the gift cards. We also found a purchase of \$900 in bus passes (12 monthly passes) and \$100 in bus tokens (50 tokens) purchased for students, but there was no documentation to support who received them.

The Board and management did not establish adequate internal controls needed to adequately account for gift cards, bus passes and tokens. When these items are not adequately accounted for, there is greater risk for its misuse.

Segregation of Duties

The NYS Fiscal Oversight Guidebook for Charter Schools states someone independent of cash collections and financial record keeping responsibilities opens mail, restrictively endorses all checks, establishes a record of all funds received, and prepares deposit slips.

During our analysis of internal controls over cash receipts, we found the Controller opens the School's mail, records checks received and makes deposits. Since these activities are performed by the same individuals, there is an inadequate separation of duties.

In addition, in the Controller's absence, the Chief Financial Officer (CFO) opens the school's mail and makes deposits. No single individual should have control over two or more phases of a financial transaction or financial business operation, such as disbursement authorization, financial recordkeeping and the deposit of funds.

As staff left the School, management failed to adequately reassign duties. The lack of segregation of duties, without compensating controls, increases the likelihood and potential for unauthorized activities to occur and remain undetected.

Recommendations

4. Maintain accounting records to account for SCA funds and fundraising efforts separately.
5. Reconcile Student Club accounts in a timely manner
6. Develop and implement written policies and procedures to adequately account for the disbursement of gift cards, bus passes and tokens.
7. Reassign responsibilities to ensure that there is adequate separation of duties over the cash receipts process.

Credit Cards

The Board and management of a Charter School are responsible for protecting its resources and ensuring that payments are for valid and legal purposes, obligations are incurred by authorized officials, goods are received or services rendered, and obligations do not exceed budgeted amounts. To determine if these requirements are met, schools should maintain complete and accurate documentation to support all payments. All purchases should be necessary, reasonable, and adequately documented.

In some instances, the School did not always maintain adequate documentation to support purchases made using the School's credit card such as purchase orders, requisitions, and receiving reports. In addition, they paid sales tax, late fees, and interest.

Purchasing

According to the School's Procurement and Purchase Requisition policy, all purchase requisitions initiated and requested by someone other than the Principal shall be approved by the Principal, and requisitions initiated by the Principal shall be approved by the Board.

The School's credit card policy states that the Business Office will review and reconcile the School's credit card statements and purchases on a monthly basis and they will verify that any items purchased were actually received. The School will also take action to follow up on any identified discrepancies in a timely manner.

The School has one credit card available to personnel for use. The authorized user is the Principal, but he designated the CFO as the holder and user of the card. We selected 146 purchases used with the School's credit card for the period July 1, 2014 through March 31, 2017.

We found that four purchases had requisitions that were initiated by someone other than the Principal and were approved by the CFO instead of the Principal. Examination of the statements identified three unauthorized transactions (not made by the School) totaling \$150. The School notified the credit card company that one \$50 transaction was

unauthorized, and received reimbursement, but failed to notify them of the other two \$50 unauthorized charges. In addition, the legal authorities should have been notified about the unauthorized transactions.

We also found the following instances of inappropriate purchases:

- a fruit arrangement for a staff member,
- an order of cookies for a staff member's son,
- an annual dinner for the custodial staff who were not employees of the School, and
- minor purchases to RJ Race Cars and Apple iTunes.

The School stated they were using an old procurement policy that was not updated to reflect changes when the CFO was given the responsibility of approving requisitions. Officials provided no reason why it did not notify the credit card company about two of the unauthorized charges or why legal authorities were not notified about all three charges. Lastly, officials said they did not realize that the purchases of fruit, cookies, the annual dinner, etc., noted in the bullets above, were inappropriate.

When credit card policies are not updated to reflect procedural changes, it becomes unclear to employees how to properly procure goods and services and review credit card charges. This can lead to inappropriate use of the credit card. The School's failure to enforce its credit card policy resulted in unauthorized credit purchases and increased the risk for future credit card misuse.

Supporting Documentation

According to the School's Procurement and Purchase Requisition policy, all procurement of goods should have a signed purchase order pre-approving the purchase, packing slips, receiving reports and acknowledgment that goods were received in satisfactory condition.

We found eight purchases were missing receiving reports, three were missing purchase orders, and seven occasions of charges for professional development trainings. The supporting documentation for the staff's professional development trainings contained no proof of attendance or completion information. For example, staff attended the

“NYS Dignity Act” training in February 2015, but there was no proof of attendance to ensure the staff went to the training.

The School did not always maintain receiving reports as required, but officials stated that the process has been changed. They also stated that purchase orders are required so it is likely they were misfiled. Officials said that they were unaware completion documents should be maintained as support for staff trainings, but a procedure would be implemented. When receiving reports are not used, the School has no assurance that the correct quantity, quality, or condition of the goods was received. In addition, when purchase orders are not completed, the School is circumventing purchasing controls that may lead to overspending. Lastly, when completion documentation is not maintained, the School does not have a record to show that staff completed trainings.

Late Fees, Interest, and Sales Tax

The School’s credit card transaction policy states that the Business Office will review and reconcile the School’s credit card statements and purchases monthly and verify that items purchased were received. The School will follow up on any identified discrepancies in a timely manner and all credit card balances will be paid in full on a monthly basis.

According to the New York State, Publication Guide to Sales Tax, for purchases to be exempt from sales tax, the organization must provide vendors with a properly completed Exempt Purchase Certificate.

We found that the School paid credit card charges that included \$1,087 in interest charges and \$169 in late fees over the audit period. We also found 31 of the 146 purchases made using a credit card, included the payment of sales tax.

School officials said they were trying to locate receipts before paying credit card invoices and that resulted in late payments and interest charges. School officials said that they did not always use sales tax exemption forms, but would start using them. Lastly, the School did not pay its credit card balances in full monthly in compliance with its own policy, resulting in late fees and interest charges. Also,

when sales tax exemption forms are not used, the School is unnecessarily paying more for goods and services.

Personal Credit Cards

According to the School's Charter Agreement, the Charter School shall always maintain appropriate governance and management procedures and financial controls.

The School's Procurement and Purchase Requisition Policy states that all procurement of goods should have a signed Purchase Order (PO) pre-approving the purchase, packing slips, receiving reports and acknowledgment that goods were received in satisfactory condition.

According to the New York State, Publication Guide for Sales Tax, an organization must provide vendors with a properly completed Exempt Certificate to make purchases exempt from sales tax.

Our review of Other Than Personal Service (OTPS) transactions included reimbursements to employees for their use of personal credit cards for School costs. We found that staff routinely made purchases, outside the normal requisition and purchase order process, by using their personal credit card. These purchases included items such as snacks, lunches and other meals, gift cards, school supplies, and tuition reimbursement. Purchase orders were not used for the 17 expenses reviewed, and about half did not use a purchase requisition. In addition, we found that 7 of the 17 claims included the reimbursement of sales tax. Finally, the receipts for meals at two meetings were not itemized.

School officials stated that there is only one credit card and this puts limits on flexibility for making purchases. In addition, officials were not aware some receipts were not itemized. They also stated they did not always use sales tax exemption forms, but they will start using them.

When School staff use their personal credit cards for School business, the purchasing internal controls are bypassed. In addition, the School is indirectly paying sales tax by reimbursing employees when they use their personal credit cards for School costs, if sales tax was included in the purchase.

Additionally, the School risks reimbursing staff for inappropriate purchases because receipts are not itemized.

Recommendations

8. Update existing policies to reflect any changes in the procurement approval process.
9. Notify the credit card company and the proper authorities when unauthorized transactions occur.
10. Ensure all procurement transactions have adequate supporting documentation.
11. Use the School's credit card for appropriate and authorized expenses.
12. Require that staff maintain documentation to support attendance at or completion of trainings.
13. Enforce the School's credit card policy to avoid late fee charges.
14. Implement a process to ensure the use of sales tax exemption forms when needed.
15. Ensure all credit card receipts are itemized and include this requirement in the School's policies.

Other Compliance Issues

Invoicing Errors

According to Education Law the school district of residence pays the charter school for each student enrolled in the charter school who resides in the school district. The school district shall also pay the charter school any federal or State aid attributable to a student with a disability attending charter school in proportion to the level of services for the student with a disability that the charter school provides directly or indirectly.

We selected a sample of 43 students, composed of 25 special education students and 18 general education students, and examined the components that make up each student's invoice, such as Full Time Equivalent (FTE) calculations, attendance, Individual Education Plan (IEP) implementation dates, and level of services provided. We found that the invoices for 14 special education students and 13 general education students had inaccuracies related to, at least, one of the components of the student's invoice. Specifically, we found nine errors caused by a difference in methodology for calculating FTEs. The remaining 18 errors were caused by incorrectly invoicing for various levels of special education services, not invoicing for students who attended the School and/or received services, or invoicing for students after they had left the School and/or stopped receiving services.

The School stated that these inaccuracies were caused by turnover of administrative staff during the 2014-2015 school year. These positions were responsible for maintaining and collaborating to provide accurate student information for invoicing purposes.

The Buffalo City School District's invoices were over-stated for 12 students by \$52,788 and under-stated for 10 students by \$64,494. Kenmore-Tonawanda Union Free School District's invoices were under-stated for 5 students by \$4,814. In total, for both School Districts, invoices were over-stated by \$52,788 and under-stated by \$69,308.

School officials did not properly train staff to prepare invoices to school districts of residence, which led to them being over and under-stated.

Employee Screening

According to the School's Recruitment, Selection, and Appointment of Personnel policy, offers are contingent upon Board approval and the satisfactory completion of a pre-employment drug test, background check, license and certification verification, fingerprinting and State Education Department check, and final reference check.

We reviewed personnel folders for 15 teachers for documentation related to fingerprinting and background checks, drug testing, reference checks, and credential checks. We found that two teacher folders did not include documentation indicating that a drug test was administered. In addition, six teacher folders did not include documentation that fingerprinting was performed. Upon inquiry, we noted that the teachers with no documentation of a drug test being administered are no longer employed at the school. We also verified with the Department's Office of School Personnel and Accountability that the six teachers were fingerprinted.

The School did not follow their policy requiring personnel folders contain documentation that drug tests were administered and fingerprinting was performed. By failing to maintain the proper documentation in personnel files as required by their policy, the School does not have assurance that employees have been properly vetted.

Recommendations

16. Ensure staff are properly trained to invoice the School District of residence.
17. Follow existing policies that all personnel folders contain the documentation noted in the policy.

Appendix A

Contributors to the Report Health Science Charter School

- T. Stewart Hubbard III, Audit Manager
- James Schelker, Auditor-in-Charge
- Daniel Flynn, Senior Auditor
- Mark Finlayson, Senior Auditor
- Mary Moore, Auditor Trainee