



Persistence Preparatory Academy Charter School

Credit Cards

2023M-71 | September 2023

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Report Highlights

Persistence Preparatory Academy Charter School

Audit Objective

Determine whether Persistence Preparatory Academy Charter School (School) credit card charges were properly approved, adequately supported and for School purposes.

Key Findings

Credit card charges we reviewed were not properly approved or adequately supported, and nearly all the charges lacked support to show they were for a valid School purpose. When credit card charges are not reviewed in a timely manner or supported, it could result in inappropriate or fraudulent charges or unauthorized payments being unresolved.

- During the 20-month audit period, the School’s credit card transactions totaled \$158,065. We reviewed transactions totaling \$117,567 and determined that almost 98 percent of them lacked documentation to demonstrate the charge’s necessity or the School-related purpose of the charge. For example, charges totaling \$22,276 included grocery, alcohol and restaurant purchases, and food purchases for “going away parties,” a teacher’s bridal shower and staff holiday parties.
- The Board Treasurer did not review credit card charges in a timely manner. The average amount of time between payment and review was 68 days.

Key Recommendation

- Adopt new, or update existing, policies to address credit card use, including the appropriate documentation to retain and to develop practices for timely review.

School officials generally agreed with our recommendations and have initiated corrective action. See Appendix B for our comment on an issue raised in the School’s response.

Background

The School is in the City of Buffalo and is governed by a 14-member Board of Trustees (Board). The Board is responsible for the general management and control of the School’s financial and educational affairs. The Head of School is the School’s chief executive officer and is responsible, along with other administrative staff, for the School’s day-to-day management under the Board’s direction.

The School contracts with an accounting firm to perform certain financial functions, with assistance from the Director of Operations, including maintaining financial records and preparing monthly financial reports.

The Board Treasurer is responsible for providing direction for the School’s financial management and assisting the Board with its financial oversight responsibilities.

Quick Facts

2022-23 Enrollment	322
Audit Period Credit Card Activity	
Total Transactions	946
Transactions Reviewed	346
Total Transaction Amount	\$158,065
Amount Reviewed	\$117,567

Audit Period

July 1, 2021 – March 7, 2023

Credit Cards

The School had two credit cards issued to the Head of School and the Director of Operations. The credit cards were used to purchase school supplies; instructional materials; repair and maintenance supplies; supplies for student events and staff development activities; and food and beverages for a variety of events, among other purchases.

The Head of School generally paid the credit card balance each month before the due date by making a transfer from the operating account to the credit card account. The School's accounting firm prepared a monthly electronic funds transfer (EFT) report, which listed all credit card charges during that month and all payments made to the credit card company for the month. The Head of School and Board Treasurer reviewed and signed the monthly EFT report.

What Are Properly Approved and Adequately Supported Credit Card Charges?

Credit card charges should be approved by individuals authorized by a board or identified by a board-adopted policy as individuals authorized to approve purchases and authorize payments. Credit cards should only be used by authorized individuals for valid school purposes and be supported by enough documentation, such as itemized receipts or invoices, to demonstrate that the charge is for a proper school purpose.

A written credit card policy should address the types of purchases allowed and specific circumstances under which credit cards may be used. The policy should also include procedures for monitoring credit card use to assess the reasonableness of the nature and number of charges and for promoting accountability and responsibility by outlining the risks, such as liability for damage, loss, and/or improper use. Furthermore, a school's policy should contain a reconciliation process and timetable, and require cardholders to provide the names of anyone who incurred the expense (for example, if food was supplied at a meeting, indicate who attended).

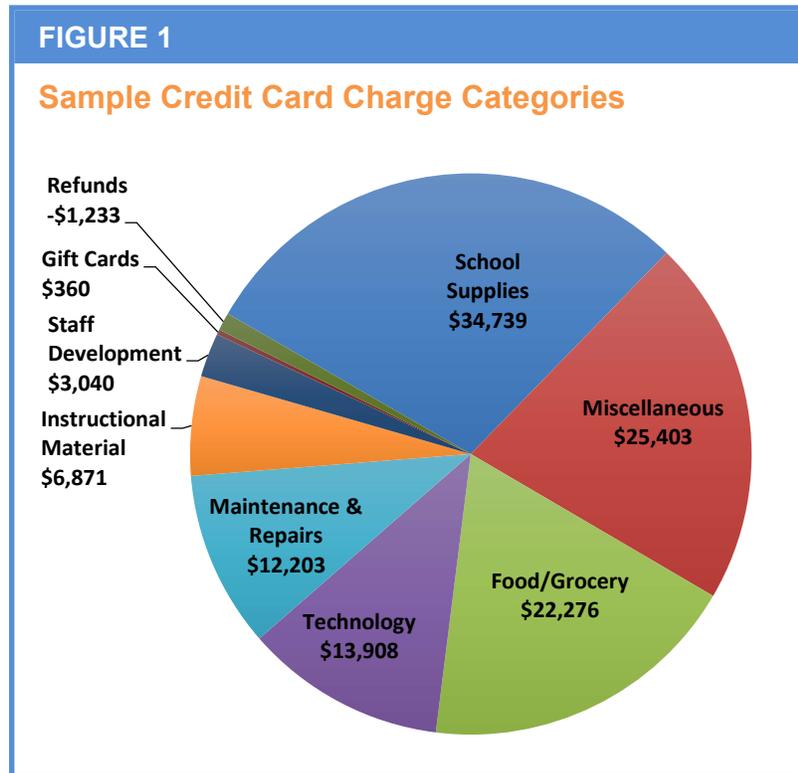
The School's fiscal policy, which the Board reviews annually, states that credit cards can only be issued to and used by the Head of School and Director of Operations. It also states that authorized credit card holders must submit itemized receipts or other printed documentation from the vendor for all transactions and document the charge's necessity. The policy also requires the Board Treasurer to review the monthly summary reports, or EFT reports for approval.

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

During the 20-month audit period, the School's credit card transactions totaled \$158,065. We reviewed a sample¹ of 346 credit card charges totaling \$117,567 (Figure 1) and determined that the charge's necessity or the School-related purpose was not documented for 344 charges (98 percent) totaling \$114,617, as required by the policy.

Furthermore, 23 charges totaling \$7,672 were missing receipts and 13 charges totaling \$4,184 only had non-itemized receipts. When we reviewed these charges with the Head of School and the Director of Operations, they located receipts for 18 of the unsupported charges totaling \$6,851. The Head of School told us that a few receipts may have been misplaced. In addition, she told us that she was unaware that documentation other than an itemized receipt was required to document the purpose of each charge. She stated that she relied on the accounting firm to request more documentation if needed when they reviewed and recorded the charges. However, the Head of School, not the accounting firm, is responsible to be familiar with School policies, safeguard School funds and ensure credit cards were used appropriately and in compliance with School policies.

We reviewed each of the 344 charges for which the School purpose was unclear with the Head of School and the Director of Operations. They provided us with additional supporting documentation and an explanation for what each charge was for, but it was unclear whether some charges were for a proper School



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

purpose. For example, 97 charges were for grocery stores and restaurants, totaling \$22,276, for:

- Classroom pizza parties,
- Staff meals at training events or meetings,
- Snack bars for staff and students to boost morale, and
- An art show fundraiser for the School's new art program, which included a \$1,077 credit card charge for the purchase of alcohol.

The Head of School and Director of Operations also told us they purchased meals for staff events, for which the educational purpose was unclear, such as "going away parties" for staff who resigned, a bridal shower for a teacher and staff holiday parties, among other events. We identified 12 charges, totaling \$7,062, for these types of events. The Head of School told us the purpose of these types of events was to retain staff. However, there was nothing in the School's charter, bylaws, Board policies or applicable employment contracts to address these types of expenses, and officials could not demonstrate how these expenses contributed to promoting and supporting the School's purpose to educate children.

We selected a sample of 34 questionable charges totaling \$9,219 for which the educational purpose was not apparent to evaluate further. Although School officials provided additional supporting documentation for 33 of these charges totaling \$9,069, the educational purpose for 29 charges totaling \$7,847 remained unclear, as follows:

- 10 charges, totaling \$4,021, were related to the School's art show fundraiser. The charges included the purchase of food, alcohol, tables, chairs and gift bags for vendors who helped sponsor the event. The Head of School and Director of Operations told us the art show event was used to help raise money for the new art program and art supplies for the School.
- Five charges, totaling \$1,882, were for miscellaneous purchases including a gift for the School nurse, and meals provided to staff for training events and to staff who set up School events.
- Six charges, totaling \$1,117, were related to charitable events. The charges included purchases of groceries and toys to prepare Thanksgiving grocery bags and holiday toys for families of students in need. Officials were able to provide documentation of who received these items.
- Four charges, totaling \$467, were related to non-School events. These included three charges to purchase food for two parties for a teacher and an administrator who resigned and a bridal shower for a teacher.
- Four charges were for 46 gift cards totaling \$360 for coffee shops (34 totaling \$240) and a gas station (12 totaling \$120). The Head of School and

Director of Operations provided lists of who received four coffee shop gift cards totaling \$90 and 10 gas station gift cards totaling \$100. The Director of Operations still had two gas station gift cards totaling \$20 in the School safe. However, the Head of School and Director of Operations could not provide a list of who received 30 \$5 gift cards (totaling \$150) to a coffee shop. The Director of Operations told us they gave these gift cards to each bus driver and bus aide as a holiday gift but had no documentation to support this.

We followed up with the individuals who received the gas station gift cards and confirmed that they received them. However, in the other instances totaling \$90, the staff members no longer worked for the School and we were unable to confirm these gift cards were given to staff. Gift cards are an asset to the School with the same value as cash. As such, the distribution of gift cards should be documented the same as disbursing cash.

The Head of School told us that the charges above were paid for using donations to the School and not from taxpayer revenue. However, all School revenue is deposited into the School's main operating account and, therefore, officials could not demonstrate or determine the source of funding used to pay for these items.

Furthermore, the Board has not adopted written policies, procedures or other guidelines regarding purchases of food or alcohol, charitable donations, gifts, gift cards or non-School related staff events, or the circumstances in which these types of purchases are appropriate and the forms of documentation which will be maintained. Without sufficient guidance, there is an increased risk that inappropriate and wasteful spending may occur.

In addition to the items not included in the School's policy noted above, the School's fiscal policy, which addressed credit card use, did not address circumstances under which credit cards may be used, or the types of purchases for which they may be used. It also does not establish a method for recouping inappropriate charges. Lastly, it did not require cardholders to provide the names of who incurred each expense (for example, a list of names of individuals who attended a meeting or event for which food was purchased with a credit card).

The Head of School agreed that the School's policy should include more detail for credit card purchases and told us the Board is in the process of updating the policy. Without adequate policies over credit card use and because School officials did not follow Board policies, there is a greater opportunity for improper use and wasteful spending to occur.

Credit Card Charges Were Not Properly Reviewed or Approved in a Timely Manner

The School's fiscal policy authorized the Head of School to make and approve all charges over \$5,000 including her own credit card purchases. In addition, the

Board Treasurer or another Board member did not review or approve credit card charges before payment or in a timely manner after payment.

We reviewed 18 EFT reports from July 2021 through December 2022. For all 18 EFT reports, the credit card balances were paid before the Board Treasurer reviewed the charges. We compared the dates the payment was made to the date the EFT report was signed by a Board member and determined the average time until review was 68 days after payment, ranging from 28 days to 153 days. Although the policy stated that the Board Treasurer should review the EFT reports, the Board Chair signed eight reports. In addition, the policy does not include a reconciliation process or outline a timeline for when credit card purchases should be reviewed.

The Head of School told us the accounting firm delayed sending the School EFT reports, which we confirmed with the accounting firm. She reviewed credit card transactions when payment was made but waited to provide the Board the charges to review until she received the EFT report from the accounting firm. She told us that, due to the accounting firm's delays and because the Board was only at the School once a month, the Board Treasurer's review was not timely. The Board Treasurer also told us the delay in EFT reports caused the untimely review. In addition, he told us that the Board Chair reviewed EFT reports when he was unavailable. However, when credit card charges are not reviewed in a timely manner, this could result in fraudulent charges or unauthorized payments being unresolved. Credit card charges should be reviewed prior to payment to ensure all charges are for appropriate purposes.

What Do We Recommend?

The Board should:

1. Ensure that the Head of School and Director of Operations comply with the fiscal policy and retain itemized receipts and sufficient supporting documentation to substantiate the appropriateness and purpose of credit card charges.
2. Update the existing policy or adopt a policy to include:
 - a. The types of purchases credit cards will be used for,
 - b. Circumstances under which the credit cards will be used,
 - c. Details on how who incurred the credit card charges will be documented,

-
- d. Procedures for monitoring credit card use, including requiring another School official to approve the Head of School's credit card charges, and
 - e. Credit card statement reconciliation process and timeline.
3. Establish policies and procedures regarding the 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.
 4. Require the Board Treasurer to review credit card transactions in a timely manner and before payment is made.

The Head of School should:

5. Become more familiar with the requirements of the School's fiscal policy and monitor compliance.
6. Ensure that the accounting firm provides the EFT reports in a timely manner.

The Board Treasurer should:

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

Appendix A: Response From School Officials



August 1, 2023

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

Dear Ms. Myers:

Persistence Preparatory 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.

While we agree with your recommendations for next steps, we also want to add additional context on our school's mission, work and practices. As a public charter school, we also operate as a 501c3 and engage in annual fundraising efforts. These fundraising efforts range from grant writing to annual events to soliciting private donations from companies and individuals. These additional funds support initiatives such as holiday meals for families, gift programs, enrichment programming, staff meals and appreciation, etc. During the outlined audit period (July 2021-March 2023), we raised over \$300,000 in private contributions, a figure that far exceeds the \$158,065 in total credit card purchases.

See Note 1 Page 10

As a school that serves a student population where 93% of families are economically disadvantaged, we see these additional efforts as imperative to our mission and believe we must holistically meet the needs of students in order to best educate them. We also know that teacher turnover has a direct, negative impact on student learning and work to maintain high levels of staff retention. Over the past 3 school years, we have retained over 95% of our staff annually due to the positive culture we have intentionally built. Since the socio-economic status of our students and the retention of teachers are directly correlated to the academic performance of our scholars, we spent funds on activities and items for students and staff that were intended to address and improve retention of staff and economic issues faced by our scholars. The school and its board firmly believe that this use of funds is directly related to our mission, charter and academic performance.

In light of your recommendations, we have taken immediate steps to update our written credit card policy to ensure that all credit card charges are adequately supported and that school credit card policies are more comprehensive and descriptive.

Based on initial feedback given during the audit, Persistence Prep has already made significant policy and practice changes around credit card use. Beginning in December 2022, a new credit card form was attached to each itemized credit card receipt, detailing the school purpose for the charge. For all food purchases, this form also includes a meeting/event agenda and a list of participants, with signatures.

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Website: persistenceprep.org



Beginning in March 2023, we instituted a new policy that increases review of credit card statements and purchases by the Board Treasurer. Upon receipt of the credit card statement and reconciliation of all receipts by the Director of Operations each month, both the statement and the reconciliation are emailed to the Board Treasurer for review and approval. Only after receiving written approval from the Board Treasurer is the credit card bill authorized to be paid. This authorization process is in addition to the monthly EFT report and review already in place. We have outlined a plan of action with our back-office provider to ensure EFT reports are prepared and reviewed in a timelier manner each month.

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.

On behalf of the Persistence Preparatory Academy Charter School,

Joelle Formato
Head of School
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jformato@persistenceprep.org

cc: Adria Sortino, Director of Operations
Elisha Tomasello, Chairperson, Board of Trustees
Kevin Celniker, Treasurer, Board of Trustees

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Appendix B: OSC Comment on the School's Response

Note 1

Although the School may have raised funds from private donations, because all School revenue is deposited into the School's main operating account, officials could not demonstrate or determine the source of funding used to pay for these items.

In addition, the Board has not adopted written policies, procedures or other guidelines regarding purchases of food or alcohol, charitable donations, gifts, gift cards or non-School related staff events, or the circumstances in which these types of purchases are appropriate.

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 Board members, and reviewed policies to gain an understanding of the School's credit card practices and procedures and to determine whether the policies related to credit card use were adequate.
- We used our professional judgment to select a sample of 346 charges totaling \$117,567. Our sample included all 326 credit card charges, excluding charges made from an online vendor used by the School for small purchases of supplies and materials. Additionally, we selected a non-biased judgmental sample of 20 transactions from the online vendor, by selecting every 48th purchase. We reviewed the sample of credit card charges to determine whether the charges were pre-approved when applicable, itemized receipts and documentation of the necessity of the charge were on file, and purchases were for a proper School purpose.
- We discussed purchases with the Head of School to determine the purpose of items purchased and to obtain additional supporting documentation. We selected 34 charges, totaling \$9,219, that we categorized as food/grocery or miscellaneous and requested additional information and documentation including who was present, the purpose of the charge and to obtain additional supporting documentation.
- We compared the date a Board member reviewed the monthly credit card charges to the date of payment to determine whether the review was timely and prior to payment.

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

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