

# REACH Academy Charter School

## Cash Disbursements

---

SEPTEMBER 2019

---



OFFICE OF THE NEW YORK STATE COMPTROLLER  
Thomas P. DiNapoli, State Comptroller

# Contents

---

- Report Highlights . . . . . 1**
  
- Cash Disbursements. . . . . 2**
  - How Should a Board Ensure Cash Disbursements Are Properly  
Approved, Supported and Accounted For? . . . . . 2
  
  - Officials Did Not Ensure Cash Disbursements Were Properly  
Supported or Approved . . . . . 2
  
  - Officials Did Not Adequately Segregate Cash Disbursement  
Duties . . . . . 3
  
  - Officials Did Not Approve Debit Card Disbursements . . . . . 4
  
  - Officials Did Not Properly Account for All Disbursements . . . . . 5
  
  - What Do We Recommend? . . . . . 5
  
- Appendix A – Response From School Officials . . . . . 7**
  
- Appendix B – OSC Comment on the School’s Response . . . . . 9**
  
- Appendix C – Audit Methodology and Standards . . . . . 10**
  
- Appendix D – Resources and Services . . . . . 12**

# Report Highlights

## REACH Academy Charter School

### Audit Objective

Determine if cash disbursements were properly accounted for, supported and approved.

### Key Findings

- The Board has not appointed a claims auditor to audit claims before payment as required by the School's cash disbursement policy.
- Cash disbursements were not properly approved prior to payment, supported or accounted for in a timely manner.
- School officials are using debit cards for cash disbursements.

### Key Recommendations

- Appoint a claims auditor.
- Develop procedures to preapprove purchases and document and verify that goods and services are received at the agreed upon price, quantity and in good condition and provide for an adequate segregation of these duties.
- Consider ending the use of debit cards.

School officials generally agreed with our recommendations and indicated they plan to initiate corrective action. Appendix B includes our comment on an issue raised in the School's response letter.

### 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 the New York State Education Law and its bylaws, charter agreement and fiscal/ financial management plans.

The REACH Academy Charter School (School) is located in the City of Buffalo. A five-member Board of Trustees (Board) is responsible for the general management and control of financial and educational affairs. The Board appoints a Head of School who is responsible, along with other administrative staff, for the School's day-to-day management under the Board's direction.

#### Quick Facts

Employees	50
2018-19 Enrollment	244
2018-19 General Fund Appropriations	\$3.7 million
2018-19 Budgeted Non-payroll Expenses	\$1.1 million

### Audit Period

July 1, 2018 – April 5, 2019

# Cash Disbursements

---

In the 2018-19 school year, the School was in its second year of operation providing education for kindergarten, first and second grade students. According to the charter, the School plans to add a grade each year up to fifth grade in 2021-22. The classrooms are designed based on developmentally appropriate themes. As the School adds new classrooms each year, officials purchase items to assemble these themed classrooms.

## **How Should a Board Ensure Cash Disbursements Are Properly Approved, Supported and Accounted For?**

A board and school management are responsible for establishing and implementing cash disbursement policies and procedures to ensure that goods are properly approved, supported and accounted for. An effective cash disbursement process ensures that purchases for goods and services have been approved prior to making the disbursement, received in good condition, are supported by appropriate documentation and are for legitimate school purposes. In addition, they should be properly recorded in the accounting system. Job duties should be segregated so that no single individual controls most or all phases of the cash disbursement process. In addition, a board, or a board-appointed claims auditor, should verify that all these components are in place before the disbursement is made.

## **Officials Did Not Ensure Cash Disbursements Were Properly Supported or Approved**

While the Board has established written policies over cash disbursements, the School is not following all aspects of these policies. The School's cash disbursement policy states that "all claims shall be properly audited before payment by the Claims Auditor who shall attest to the existence of evidence of indebtedness to support the claim"; however, the Board has not appointed a claims auditor. Consequently, no one is auditing the claims and officials cannot be certain that purchases of goods and services are for proper School purposes and include appropriate supporting documentation.

The School's credit card policy allows for the issuance of credit cards to designated employees for pre-approved, reimbursable business related expenses such as tuition, conferences, travel, etc. The policy also requires the cards be locked in a secure place in the main office. However, the Board has not officially<sup>1</sup> designated the current cardholders and there is no pre-approval of credit card purchases. Unlike the reimbursement examples provided in the policy, credit cards were used to purchase goods and services. In addition, credit cards are not secured in the main office but rather are kept by each of the cardholders.

---

<sup>1</sup> The Board Treasurer told us that cardholders were designated in finance committee meetings, but it was not documented.

---

We reviewed a sample of 106 cash disbursements totaling \$100,491 and found that 102 disbursements (96 percent) totaling \$61,653 (61 percent) were not approved prior to purchase.<sup>2</sup> Prior approval is a necessary part of the cash disbursement process. The purpose of prior approval is to ensure that the agreed upon price and quantity are within the budget and that the goods and/or services are for a legitimate School purpose.

While all disbursements were for a legitimate School purpose, we found 83 disbursements (78 percent) totaling \$69,464 (69 percent) had no acknowledgement that goods or services were received in good condition. School Administrators (Administrators) told us that they confirm all goods ordered were received, but they do not always make a notation on the invoice or attach a packing slip or other documentation to demonstrate receipt. We selected a sample of nine disbursements, totaling approximately \$11,800, to determine whether the School received the items ordered and we were able to find the purchased items at the School. However, because of this informal receiving process, there is a risk that School officials may pay for items that are not received.

### **Officials Did Not Adequately Segregate Cash Disbursement Duties**

The School's cash disbursements are made by credit card, handwritten check or debit card. More than half of the disbursements are initiated by three Administrators.<sup>3</sup> Administrators typically use the credit card assigned to them or the School's debit card to purchase classroom themed items online or from local stores. While some larger purchases are approved through a request for proposals process, the School does not have a formal process to approve these purchases prior to ordering, receiving or paying for goods and services.

Cash disbursements made by check are processed by the Chief Information Officer (CIO) after an invoice has been received. The CIO will obtain the approval of the Administrators who made the purchases before preparing the checks which are signed by the Head of School. This process allows the Head of School to approve her own purchases without any additional approval. School officials primarily use checks to pay for higher value, recurring disbursements. Examples of these type of disbursements include payments for the building lease, computers and school uniforms.

The School has three credit cards assigned to the Head of School, Director of Operations and Student Services and Director of Technology and Facilities. The

---

<sup>2</sup> Examples of preapproved disbursements include a Board-approved request for proposals for computers, informal quotes for room construction items and a consultant contract for training services.

<sup>3</sup> Head of School, Director of Operations and Student Services, and Director of Technology and Facilities. We omitted lease, insurance and utilities disbursements.

---

Administrators told us credit card transactions are reviewed by the Administrator who made the purchase and the Head of School<sup>4</sup> at the end of the month to ensure they are recorded to the correct account code. The School has one debit card assigned to the Head of School. When debit card transactions are posted to the checking account, the bookkeeper prints a copy of the online order or purchase history from the vendor's website and records the payment in the accounting system. Although these procedures provide for some oversight after purchases have been made, when cash disbursement duties are not properly segregated there is an increased risk that errors or irregularities could go undetected.

### **Officials Did Not Approve Debit Card Disbursements**

Debit cards pose significant risks because individuals using them have direct access to a school's bank account and unauthorized use may not be readily detected. In addition, a debit card allows a payment to be directly withdrawn from a school's bank account at the time of purchase before goods are received or before school officials have an opportunity to determine whether the purchase is for a legitimate purpose.

The Head of School told us during fieldwork that because of the School's credit card limit (\$12,000 in total for the three cards), School officials use debit cards for larger disbursements. The debit card is used primarily for online purchases, and in some cases at local stores. The part-time bookkeeper told us she checks the bank accounts online on days she works.<sup>5</sup> If she sees a debit card transaction, she prints out a copy of the order or purchase history from the vendor's website, makes the determination that the item is for a legitimate School purpose, identifies the account code, records the transaction in the accounting system and files the supporting documentation. Unless the bookkeeper has a question regarding where to record the disbursement, the bookkeeper is the only one involved in reviewing and recording the debit card transaction.

Of the sample of 106 disbursements reviewed, 31 were debit card transactions totaling approximately \$26,400 which included disbursements for the following: 20 totaling \$5,600 to online vendors with School accounts, \$5,500 to a local auctioneer for furniture, \$4,200 for online learning materials, \$3,100 for online sports equipment, two totaling \$2,200 to a local vendor for furniture, \$1,700 for an online property rental<sup>6</sup> and \$4,100 to five online vendors for various items. In addition, 28 of the 31 (90 percent) debit card transactions tested were paid before the goods were received.

---

4 The Board Treasurer began reviewing transactions incurred by the Head of School in March 2019.

5 The part-time bookkeeper generally works three to four days a week.

6 For the annual administrator retreat

---

At the end of audit field work the Head of School acknowledged that they should probably use the credit cards more frequently than the debit cards and felt confident that if necessary they would be able to get the credit limit increased.

By relying on debit cards, the School has an increased risk that it will pay for unauthorized or excessive purchases and could have difficulty recovering any unauthorized or questionable charges. Because of such risks, the Board should consider ending the use of debit cards.

### **Officials Did Not Properly Account for All Disbursements**

The bookkeeper does not record check disbursements in the accounting system until they are posted to the bank checking account. When a check clears the checking account, the bookkeeper matches it to the supporting documents<sup>7</sup> and posts the disbursement to the accounting system on the date the check cleared. This practice causes some disbursements to be posted in a different month than they were made, resulting in an overstatement of cash balances and an understatement of expenses in the monthly reports to the Board.

The Board is provided with a monthly balance sheet and revenue and expense statement. However, cash balances and monthly expenses are misstated in these reports because they do not account for outstanding checks. While the year-end financial statements include an adjustment for outstanding checks, these adjustments are not made throughout the fiscal year. For example, July and August 2018 outstanding checks totaled \$33,755 and \$15,303, respectively. The School's practice of not recording these check disbursements resulted in an overstatement of the July 31, 2018 cash balance and an understatement of expenses by \$33,755. Additionally, the August 31, 2018 cash balance would have been overstated and expenses understated by at least \$15,300. Providing the Board with inaccurate monthly reports may impact the Board's ability to assess budget compliance, cash flow and make other financial decisions.

### **What Do We Recommend?**

The Board should:

1. Appoint a claims auditor to audit claims prior to payment as required by the School's policy.
2. Officially designate current credit card users.
3. Consider ending the use of debit cards. If it chooses to continue using debit cards, appropriate restrictions and notification controls should be imposed.

---

<sup>7</sup> Invoice and copy of check

- 
4. Ensure accurate financial reports are provided in the monthly reports to the Board.

The Board should ensure School officials:

5. Comply with the credit card policy.
6. Develop procedures to preapprove purchases and document and verify that goods and services are received at the agreed upon price, quantity and in good condition.
7. Adequately segregate cash disbursement duties.
8. Properly record checks in the accounting system in a timely manner.

# Appendix A: Response From School Officials



REACH ACADEMY CHARTER SCHOOL  
115 ASH STREET  
BUFFALO, NY 14204

HEAD OF SCHOOL  
LINDA A. MARSZALEK

PHONE: 716-248-1485  
FAX: 716-248-2833

Mr. Jeffrey D. Mazula  
Chief Examiner  
295 Main Street  
Suite 1032  
Buffalo, NY 14203

## Audit Response Letter

REACH Academy Charter School  
Cash Disbursements  
Report of Examination  
2019M-130

Dear Mr. Mazula,

Thank you for the opportunity to have your team come to REACH Academy Charter to audit our Financial Disbursements for the period of July 1, 2018 to April 5, 2019. As a new school, commencing our second year of operations, it was an optimal time to support us in setting up a strong foundation for financial management for years to come. Your assessment provides us valuable suggestions that will help to strengthen our fiscal oversight. I found the whole process to be much less daunting than expected, with supportive insights on how we can strengthen our systems for being strong fiscal stewards of taxpayer funds.

I agree with the recommendations that you provided, but request that you consider modifying the first recommendation. The report suggests that the Board “appoint a claims auditor as required by the school’s policy.” This particular school policy was created during the pre-opening period of the charter. Using a local school district’s policy as a template, we crafted a similar policy. However, we now realize that Charter Schools are not required as school districts are to have a Claims Auditor. In the document given to us by your office as guidance; *Claims Auditor Internal Audit Function & Audit Committee (Updated 2013)*, even districts that “have General fund expenditures totaling less than \$5-million in the previous school year” or an “actual enrollment of less than 1,500 (effective April 1, 2013) students in the previous school year” are exempt from the requirement of having a Claims Auditor. Both of these exemptions would apply to us, if we were considered a school district. Therefore, school districts similar in size to REACH, are not required to appoint a Claims Auditor.

I realize that a having a “Claims Auditor” named who reviews all disbursements and attests that it’s complete is a valuable tool to safeguarding against fraudulent activity and errors. However, within a small organization where we are already working to improve the separation of duties with a relatively small number of available individuals, having an additional Claims Auditor preapprove every disbursement prior to making any payment is an arduous task. Therefore, we respectfully request that the recommendation include the option to update our policy. This policy is not found in our original charter, so amending it should not require Board of Regents approval.

REACH HIGHER!

See  
Note 1  
Page 9



**REACH ACADEMY CHARTER SCHOOL**  
115 ASH STREET  
BUFFALO, NY 14204

HEAD OF SCHOOL  
LINDA A. MARSZALEK

PHONE: 716-248-1485  
FAX: 716-248-2833

In lieu of this recommendation, the REACH Academy Charter School's Board of Trustees voted to appoint Randy Spivack as the school's Claims Auditor at their monthly board meeting on August 13, 2019. We would like to have Mr. Spivack sign off on each disbursement monthly to ensure that purchases of goods and services are for proper school purposes and include the appropriate supporting documentation. However, this would require us to amend our policy so that the claims auditor would review all disbursements monthly, rather than prior to the purchase. We are also putting processes in place that require, myself the Head of School, to preapprove purchases along with the remaining recommendations found by the Comptroller's Audit. The detailed explanation of those procedures will be fully articulated in the Corrective Action Plan that is forthcoming.

Again, we appreciate the insights that the Audit Report highlights. As a young organization, your Audit provides timely feedback to support our joint desires to safeguard taxpayer monies in a fiscally responsible manner.

Sincerely,

Linda A. Marszalek  
Head of School

# Appendix B: OSC Comment on the School's Response

---

## Note 1

Since the Board-adopted policy requires that the claims auditor audit all claims prior to payment, we included it as a recommendation. We updated the recommendation to better clarify the circumstances. Further, the Board can revisit and update its policies to better align with its expectations. Although not required as School officials noted, having an independent claims auditor thoroughly examine and approve claims prior to payment is a strong internal control.

## 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 reviewed the School's charter, bylaws, minutes and written policies, and interviewed personnel to gain an understanding of the School's cash disbursement practices.
- We used professional judgment to select a sample of 106 cash disbursements for the period July 1, 2018 through December 31, 2018. The sample included check, credit and debit card transactions totaling approximately \$100,500 for a variety of vendors providing goods and services. Some small value disbursements were included since the School purchases a high volume of low-cost items and the highest dollar value disbursement for each vendor was selected. We excluded recurring disbursements such as lease and utilities. In addition, we used professional judgment to select the August 2018 credit card statement for our sample because it was a good representation of the School's monthly credit card activity.
- For the sample selected, we reviewed the supporting documentation such as invoices, requests for proposals and quotes, receipts, copies of checks, and delivery documents to assess whether the claims were properly supported and approved prior to payment.
- We also used our professional judgment to select a sub-sample of nine disbursements to view assets purchased totaling approximately \$11,800. Our sample was based on reasonableness that assets could be identified and observed. We also used our professional judgment to select items that could be used for School or personal purposes. We selected items from each type of payment method.
- We used our professional judgment to select the months of July and August 2018 to review checks posted to the accounting system. These months were selected because they were at the beginning of a fiscal year. For this sample, we reviewed bank statements and Board reports to determine whether outstanding checks were properly recorded in the accounting system in a timely manner.

We conducted this performance audit in accordance with GAGAS (generally accepted government auditing standards). 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 plan of action that addresses the recommendations in this report and forward the plan to our office within 90 days.

## Appendix D: Resources and Services

---

### **Regional Office Directory**

[www.osc.state.ny.us/localgov/regional\\_directory.pdf](http://www.osc.state.ny.us/localgov/regional_directory.pdf)

### **Cost-Saving Ideas** – Resources, advice and assistance on cost-saving ideas

[www.osc.state.ny.us/localgov/costsavings/index.htm](http://www.osc.state.ny.us/localgov/costsavings/index.htm)

### **Fiscal Stress Monitoring** – Resources for local government officials experiencing fiscal problems

[www.osc.state.ny.us/localgov/fiscalmonitoring/index.htm](http://www.osc.state.ny.us/localgov/fiscalmonitoring/index.htm)

### **Local Government Management Guides** – Series of publications that include technical information and suggested practices for local government management

[www.osc.state.ny.us/localgov/pubs/listacctg.htm#lmgm](http://www.osc.state.ny.us/localgov/pubs/listacctg.htm#lmgm)

### **Planning and Budgeting Guides** – Resources for developing multiyear financial, capital, strategic and other plans

[www.osc.state.ny.us/localgov/planbudget/index.htm](http://www.osc.state.ny.us/localgov/planbudget/index.htm)

### **Protecting Sensitive Data and Other Local Government Assets** – A non-technical cybersecurity guide for local government leaders

[www.osc.state.ny.us/localgov/pubs/cyber-security-guide.pdf](http://www.osc.state.ny.us/localgov/pubs/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/localgov/finreporting/index.htm](http://www.osc.state.ny.us/localgov/finreporting/index.htm)

### **Research Reports/Publications** – Reports on major policy issues facing local governments and State policy-makers

[www.osc.state.ny.us/localgov/researchpubs/index.htm](http://www.osc.state.ny.us/localgov/researchpubs/index.htm)

### **Training** – Resources for local government officials on in-person and online training opportunities on a wide range of topics

[www.osc.state.ny.us/localgov/academy/index.htm](http://www.osc.state.ny.us/localgov/academy/index.htm)

## Contact

Office of the New York State Comptroller  
Division of Local Government and School Accountability  
110 State Street, 12th Floor, Albany, New York 12236

Tel: (518) 474-4037 • Fax: (518) 486-6479 • Email: [localgov@osc.ny.gov](mailto:localgov@osc.ny.gov)

[www.osc.state.ny.us/localgov/index.htm](http://www.osc.state.ny.us/localgov/index.htm)

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

---

**BUFFALO REGIONAL OFFICE** – Jeffrey D. Mazula, Chief Examiner

295 Main Street, Suite 1032 • Buffalo, New York 14203-2510

Tel (716) 847-3647 • Fax (716) 847-3643 • Email: [Muni-Bufferalo@osc.ny.gov](mailto:Muni-Bufferalo@osc.ny.gov)

Serving: Allegany, Cattaraugus, Chautauqua, Erie, Genesee, Niagara, Orleans, Wyoming counties



Like us on Facebook at [facebook.com/nyscomptroller](https://facebook.com/nyscomptroller)

Follow us on Twitter [@nyscomptroller](https://twitter.com/nyscomptroller)