



Central Valley School District

Claims Audit

Report of Examination

Period Covered:

July 1, 2013 – November 30, 2014

2015M-129



Thomas P. DiNapoli

Table of Contents

	Page
AUTHORITY LETTER	1
INTRODUCTION	2
Background	2
Objective	2
Scope and Methodology	2
Comments of District Officials and Corrective Action	2
CLAIMS AUDIT	4
Recommendations	5
APPENDIX A Response From District Officials	6
APPENDIX B Audit Methodology and Standards	8
APPENDIX C How to Obtain Additional Copies of the Report	9
APPENDIX D Local Regional Office Listing	10

State of New York Office of the State Comptroller

Division of Local Government and School Accountability

August 2015

Dear School District Officials:

A top priority of the Office of the State Comptroller is to help school district officials manage their districts efficiently and effectively and, by so doing, provide accountability for tax dollars spent to support district operations. The Comptroller oversees the fiscal affairs of school districts statewide, as well as districts' 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 Board of Education governance. Audits also can identify strategies to reduce costs and to strengthen controls intended to safeguard district assets.

Following is a report of our audit of the Central Valley School District, entitled Claims Audit. This audit was conducted pursuant to Article V, Section 1 of the State Constitution and the State Comptroller's authority as set forth in Article 3 of the New York State General Municipal Law.

This audit's results and recommendations are resources for district officials to use in effectively managing operations and in meeting the expectations of their constituents. 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

The Central Valley School District (District) is located in the Towns of Columbia, Frankfort, German Flatts, Herkimer, Litchfield, Little Falls and Schuyler in Herkimer County. The District was formed by a merger of Mohawk Central School District and Ilion Central School District on July 1, 2013. The District operates four schools and has approximately 2,400 students and 400 full- and part-time employees. The District's budgeted expenditures for the 2014-15 fiscal year were \$45 million, which were funded primarily with real property taxes and State aid.

The District is governed by a Board of Education (Board) which comprises seven elected members. The Board is responsible for the general management and control of the District's financial and educational affairs. The Superintendent of Schools (Superintendent) is the District's chief executive officer and is responsible, along with other administrative staff, for day-to-day District management under the Board's direction. Responsibilities related to the District's finances, accounting records and reports are largely those of the Business Manager, who also serves as the purchasing agent.

The Board has delegated its claims auditing responsibility to the claims auditor. The claims auditor reports directly to the Board and is responsible for examining, and allowing or rejecting, all accounts, charges, claims or demands against the District.

Objective

The objective of our audit was to review internal controls over the District's claims audit process. Our audit addressed the following related question:

- Are internal controls over the claims audit process designed to ensure claims are adequately supported and appropriate?

Scope and Methodology

We examined the District's claims audit process for the period July 1, 2013 through November 30, 2014.

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 are included in Appendix B of this report.

Comments of District Officials and Corrective Action

The results of our audit and recommendations have been discussed with District officials and their comments, which appear in Appendix A, have been considered in preparing this report. District officials

generally agreed with our recommendations and indicated they have taken, or plan to take, corrective action.

The Board has the responsibility to initiate corrective action. Pursuant to Section 35 of the General Municipal Law, Section 2116-a (3) (c) of the New York State Education Law, and Section 170.12 of the New York State Regulations of the Commissioner of Education, a written corrective action plan (CAP) that addresses the findings and recommendations in this report must be prepared and provided to our office within 90 days, with a copy forwarded to the Commissioner of Education. To the extent practicable, implementation of the CAP must begin by the end of the next fiscal year. 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. The Board should make the CAP available for public review in the District Clerk's office.

Claims Audit

An effective system for claims processing ensures that every claim against the District contains enough supporting documentation to determine that purchases comply with statutory requirements and District policies and that the amounts claimed represent actual and necessary expenditures. Conducting a proper audit of claims prior to payment is an integral part of internal controls over the District's payment of claims. Education Law requires the Board to audit all claims before they are paid, or to appoint a claims auditor to assume the Board's powers and duties to examine and approve or disapprove claims. It is important for the claims auditor to determine whether the claims are properly itemized and supported, and whether the District has actually received the goods or services described in each claim by reviewing detailed receipts. The claims auditor, on behalf of the Board, is responsible for ensuring that claims are legitimate and in accordance with District policy prior to authorizing payment. Other than a few specific exceptions authorized by Education Law, all claims must be audited before payments can be made.

The claims auditor's authorization to pay a claim should be documented with a signed statement on a warrant (listing of claims) authorizing the Treasurer to pay the claimants. The Treasurer should compare the signed checks with the warrant to verify their accuracy and consistency before the checks are issued. If the Board allows the Treasurer to use an electronic or facsimile signature to sign District checks, the signature must be affixed by the Treasurer or under the Treasurer's direct supervision.

District office staff receive invoices and provide them to the accounts payable clerk located at the Herkimer-Fulton-Hamilton-Otsego Board of Cooperative Educational Services Central Business Office (CBO). The accounts payable clerk prepares claim packets for audit, generates warrants and prints checks with the Treasurer's electronic signature. Then, she provides the claims and warrants bi-weekly to the Business Manager, who reviews the claims and signs the warrants prior to the claims auditor's review.

The claims auditor is responsible for reviewing the claims to ensure they have adequate support and proper approvals and that the purchases are for a proper District purpose. The claims auditor stamps each claim to show her approval and certifies the warrants to authorize the Treasurer to pay the claims. The claims auditor provides the Treasurer with the claim packets and the warrants. The Treasurer returns the claim packets to the CBO and keeps the approved warrant

on file. The accounts payable clerk mails out the check payments. The Treasurer does not oversee the application of her signature on checks or compare checks to the warrant prior to issuance. Consequently, there is an increased risk that improper disbursements or payment errors could occur. The Board reviews the approved warrants and the claims auditor report¹ monthly.

We examined 51 randomly selected claims totaling \$903,997² and 14 higher risk claims³ totaling \$149,034 to determine if they were listed on the warrants and contained appropriate supporting documentation, if they were for proper District purposes, and if the claims auditor approved the claims for payment. All claims tested had proper claims auditor approval and adequate documentation to support that the disbursements were proper and reasonable. Although we identified minor deficiencies, which we discussed with management, we determined that internal controls over the claims audit process are designed to ensure that claims are adequately supported and appropriate prior to payment.

Recommendations

The Treasurer should:

1. Discontinue the practice of allowing checks to be signed by computer imprinted signature without her direct supervision.
2. Compare final, original checks to the certified warrants of audited and approved claims prior to checks being issued.

¹ The monthly claims auditor report summarizes each warrant and shows any problems found on specific claims and the corrective action taken (if applicable).

² General - \$41,954, Cafeteria - \$2,878, Capital - \$859,165

³ See Appendix B for our sample selection methodology.

APPENDIX A

RESPONSE FROM DISTRICT OFFICIALS

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

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Central Valley School District

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Richard J. Hughes, Ed.D., *Superintendent*
Cynthia Stocker, *Assistant Superintendent for Curriculum*
Ken Long, *Business Manager*

August 14, 2015

Office of the State Comptroller
Syracuse Regional Office
State Office Building, Room 409
333 East Washington Street
Syracuse, NY 13202-1428

Re: Central Valley School District Claims Audit Draft Report – 2015M-129

To Whom It May Concern:

The Central Valley CSD at Ilion-Mohawk has reviewed the draft audit listed above, received by electronic mail on July 16, 2015. In addition to that review, on July 30, 2015 we attended a closing conference to discuss the draft audit and response process. In attendance at that meeting were the Comptroller's representative who conducted the audit and her supervisor, along with the Superintendent of Schools and the Business Manager of the district.

After reviewing the draft, the District generally agrees with the findings and has already taken steps to correct the deficiencies noted.

The District would like the Comptroller's Office to know that it will use this audit as a tool to guide it in its ongoing efforts to improve all processes and further protect the taxpayers. The District wishes to thank the Comptroller's Office and in particular the staff members who conducted the audit.

Sincerely,

Richard J. Hughes, Ed.D.
Superintendent of Schools

Kenneth A. Long
Business Manager

APPENDIX B

AUDIT METHODOLOGY AND STANDARDS

The objective of our audit was to review internal controls over the District's claims audit process during the period July 1, 2013 through November 30, 2014. To accomplish our audit objective and obtain valid evidence, our procedures included the following:

- We interviewed District officials to gain an understanding of the claims auditing and payment process and reviewed Board meeting minutes, the Board's policy on *Auditing Claims for Payment*, warrants and selected monthly reports provided by the claims auditor to the Board.
- We used a random number generator and selected a sample of claims that were processed from July 1, 2013 through November 30, 2014. Our testing included 25 general fund claims totaling \$41,954, 14 cafeteria fund claims totaling \$2,878 and 12 capital fund claims totaling \$859,165.
- We judgmentally selected 14 claims paid during our audit period totaling \$149,034 for examination. We selected these claims because they posed a higher risk of being inappropriate District expenditures. Such payments included payments made to District officials or their business interests and unusual or unknown vendors. We also reviewed payments of high dollar amounts and payments for potentially questionable purchases.
- We reviewed the sample of claims to determine if they contained proper approvals, sufficient supporting documentation and evidence that they were for a proper District purpose. We also determined whether they were approved by the claims auditor prior to payment. We examined the related canceled checks and warrants to ensure consistency with the claims.

We conducted this performance audit in accordance with 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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