



Greenwich Central School District Claims Auditing

Report of Examination

Period Covered:

July 1, 2014 – September 30, 2015

2016M-37



Thomas P. DiNapoli

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State of New York Office of the State Comptroller

Division of Local Government and School Accountability

June 2016

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 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 district operations and Board of Education governance. Audits also can identify strategies to reduce district costs and to strengthen controls intended to safeguard district assets.

Following is a report of our audit of the Greenwich Central School District, entitled Claims Auditing. 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 Greenwich Central School District (District) is located in the towns of Argyle, Cambridge, Easton, Fort Edward, Greenwich, Hebron, Jackson and Salem in Washington County. The District is governed by a Board of Education (Board) that is composed of five 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 the District's day-to-day management under the Board's direction. The District's Business Administrator also serves as the District Treasurer.

The District operates three schools with approximately 1,100 students and 200 employees. The District's budgeted expenditures for the 2015-16 year were approximately \$19.3 million, which were funded primarily with State aid and real property taxes.

Objective

The objective of our audit was to evaluate the effectiveness of the District's claims auditing procedures. Our audit addressed the following related question:

- Are claims adequately documented and supported for legitimate District purposes and approved prior to payment?

Scope and Methodology

We examined the District's claims auditing process for the period July 1, 2014 through September 30, 2015.

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. 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.

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 have initiated, or indicated they planned to initiate corrective action.

The Board has the responsibility to initiate corrective action. Pursuant to Section 35 of General Municipal Law, Section 2116-a (3)(c) of New York State Education Law and Section 170.12 of the 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 Auditing

Education Law (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. An effective claims processing system ensures that all claims are subjected to an independent, thorough and deliberate review. Such a review should ensure that every claim contains enough supporting documentation to determine whether it complies with statutory requirements and District policies and the amounts represent actual and necessary District expenditures. In addition, it is important for the Board to determine whether the claims are properly itemized and supported and whether the District actually received the goods or services described on each claim.

The Board appointed a claims auditor and adopted a claims auditing policy to provide procedures for auditing claims. According to the policy, the claims auditor must report directly to the Board on the results of the audits of the claims. The claims auditor is required to examine all claims listed on the warrant to determine whether there is adequate evidence to support the District's expenditure. The policy also requires that valid claims against the District be paid by the Treasurer only upon the approval of the claims auditor.

The clerk in the District's business office receives invoices, date stamps each invoice and submits them to a separate accounts payable clerk. The accounts payable clerk prepares the claims packets, that include support for the invoices,¹ prints the warrant and provides it and the claim packets to the claims auditor for audit. The claims auditor initials each claim to indicate her approval and certifies the warrant to authorize the Treasurer to pay the claims. After the claims auditor provides the Treasurer with the claim packets and warrant, the Treasurer then verifies the audit is complete and returns the claim packets to the accounts payable clerk to process payments.

We found that the District needs to improve its claims auditing process to ensure that all claims have been audited and approved by the claims auditor before payment is made. Specifically, we found that the claims auditor did not consistently audit all claims related to the capital fund prior to payment. During our audit period, the District paid 3,282 claims totaling about \$40.3 million. We reviewed 151 claims totaling approximately \$4.2 million (110 randomly selected claims totaling \$1.7 million and 41 judgmentally selected

¹ The claim packets include the invoice, purchase order and packing slips (receiving documentation).

claims totaling \$2.5 million²) to determine whether the claim packets contained sufficient documentation and were properly authorized prior to payment, itemized and for valid District purposes.

Of the 110 randomly selected claims, we generally found that these claims were adequately documented, supported and for valid District purposes. Of the 41 claims judgmentally selected, we found that 37 totaling approximately \$2.5 million³ were paid prior to being audited. The claims auditor received these claims after they had already been paid, which circumvents both the Law and District policy.

District officials told us that the capital project claims were paid after the architect and construction manager⁴ reviewed and approved them. However, of the 31 capital project claims, we found that 21 totaling approximately \$751,000 did not include supporting documentation to indicate that the architect and construction manager had reviewed and approved the claims. The remaining 10 capital project claims totaling approximately \$1.8 million included a form that contained both the architect's and construction manager's documented approval to pay the claims.

Because the District paid capital project claims before they were audited by the claims auditor, it has an increased risk that it may pay for unauthorized or inaccurate claims.

Recommendation

1. The Board should ensure that the claims auditor audits all claims prior to payment, unless they are statutorily exempt.⁵

² These 41 claims consisted of 31 capital fund claims totaling \$2.5 million and 10 general fund claims totaling \$8,971. Refer to Appendix B for further information on our sample selection.

³ 31 capital fund claims and six general fund claims

⁴ The District contracted with this individual to complete the projects. District officials also told us they relied on the architect and construction manager to determine whether the capital projects had been completed according to the contracts.

⁵ Claims that are statutorily exempt include those for postage and utilities. However, exempt claims must be presented to the claims auditor after payment for review and approval.

APPENDIX A

RESPONSE FROM DISTRICT OFFICIALS

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

Greenwich Central School

"Scholarship, Character, Community - Cultivating the Future"

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Superintendent of Schools

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District Clerk

Denise Smith

May 9, 2016

Mr. Jeffrey P. Leonard, Chief Examiner
NYS Office of the State Comptroller
Division of Local Government & School Accountability
Glens Falls Regional Office
One Broad Street Plaza
Albany, NY 12236

Dear Mr. Leonard:

This letter is in response to the Report of Examination of the Greenwich Central School District. The Examination covered the period July 1, 2014-September 30, 2015, and was conducted from October 20, 2015 – December 3, 2015. The area of examination was Claims Auditing.

We would like this letter to serve as both the audit response and the Corrective Action Plan.

The District concurs with the findings and has already implemented measures which will fulfill the recommendation on improving Claims Auditing. The recommendation states: The Board should ensure that the claims auditor audits all claims prior to payment, unless they are statutorily exempt.

The audit period included the summer months during which a significant capital project was in progress. Claims from construction contractors were approved by the construction manager and the architect, and were being submitted when the claims auditor was not present at her regular job in the school district. The District was eager to speed the construction work so that it would be complete for the start of school in September. These claims were for labor that had already been paid, and materials that had already been delivered. The claims were approved later by the claims auditor, and were for legitimate District purposes.

This situation no longer exists, and all checks for vendors will be held until approved by the claims auditor. The contractors and vendors will have to wait until this occurs.

The District appreciates the professionalism of the examiners, and the positive suggestions that were offered. Examinations provide an additional measure to assure the public that taxpayer funds are well spent and accounting rules are followed. We look forward to continuing the constructive relationships that have been established with the State Comptroller's Regional Office.

Sincerely,

Mark Fish
Superintendent of Schools

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APPENDIX B

AUDIT METHODOLOGY AND STANDARDS

To achieve our audit objective and obtain valid evidence, we performed the following procedures:

- We interviewed District staff and reviewed the procedures they used for processing claims.
- We reviewed District policies and procedures related to claims processing.
- We obtained a check disbursement list and traced the beginning and ending check numbers to the canceled checks, and traced gaps in check numbers to the voided checks, to determine our population for sample selection.
- Using a computerized random sampling tool, we randomly selected 100 claim payments for the period July 1, 2014 through June 30, 2015 and 10 claims paid for the period July 1, 2015 through September 30, 2015. Our testing included 76 general fund claims totaling \$752,648, seven school lunch claims totaling \$14,660, three special aid fund claims totaling \$8,151, two capital fund projects totaling \$505,294 and 22 trust and agency fund claims totaling \$461,182.
- We judgmentally selected 41 claims totaling approximately \$2.5 million that were paid during our audit period. Our judgmental sample included 31 capital fund claims totaling \$2.5 million and 10 general fund claims totaling \$8,971. In our judgmental sample, we included those claims that were paid with manually signed checks and checks that were dated prior to the warrant date upon which they appeared.
- We examined the selected claims to determine whether they contained sufficient evidence to determine whether they were audited by the claims auditor before payment and adequate supporting documentation. We also determined whether they were accurate and valid and legitimate District expenditures. In addition, 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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