



Harrisville Central School District

Claims Audit

Report of Examination

Period Covered:

July 1, 2014 – October 31, 2015

2016M-215



Thomas P. DiNapoli

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State of New York Office of the State Comptroller

Division of Local Government and School Accountability

September 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 Harrisville Central 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 Harrisville Central School District (District) is located in the Towns of Croghan and Diana in Lewis County and in the Towns of Fowler and Pitcairn in St. Lawrence County. The District is governed by the Board of Education (Board), which is composed of 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 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 operates one school with approximately 440 students and 92 employees. The District's budgeted general fund appropriations for the 2015-16 fiscal year were \$9.3 million, which were funded primarily with real property taxes and State aid.

The District contracts with the St. Lawrence-Lewis Board of Cooperative Services (BOCES) for a variety of financial-related services through a shared services agreement. As part of the agreement, BOCES provides the District with a Business Manager, accounts payable clerk (Clerk) and other Business Office personnel who process the District's financial transactions. The Board has appointed a BOCES representative to serve as the District's claims auditor. Because the District is a component district of BOCES and it makes material and significant contract payments to BOCES, the Board has appointed a District employee to audit the BOCES claims. BOCES personnel generate the District's checks and perform the online transactions necessary to complete the District's disbursement process. The Board appoints a Treasurer who is responsible for signing all checks drawn from District funds.

Objective

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

- Are internal controls over the claims auditing function appropriately designed and operating effectively to adequately safeguard District moneys?

Scope and Methodology

We examined controls over the District's claims auditing function for the period of July 1, 2014 through October 31, 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 agreed with our recommendations and indicated that they will 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 Audit

An effective system for claims processing ensures that every claim against the District contains enough supporting documentation to determine whether the amounts claimed represent actual and necessary expenditures and whether the goods or services being billed for were actually received. 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.

The Board has appointed a BOCES representative to serve as the District's claims auditor for non-BOCES claims, and it appointed a District employee to serve as the claims auditor for BOCES claims (BOCES claims auditor). The Board adopted a policy setting forth the duties and responsibilities of the claims auditors. This policy requires the claims auditors to have the necessary knowledge and skills to audit claims, including experience with purchasing, bidding and claims processing. The claims auditors must examine all claims to determine whether there is sufficient evidence to support the District's expenditures and must report directly to the Board on the results of the audit. Further, all claims shall be paid by the Treasurer only upon approval of the claims auditor.

As part of the claims audit process, it is important for the claims auditors 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, invoices and receiving documentation. The claims auditors, on the Board's behalf, are 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 auditors' 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 accuracy and consistency before the checks are issued.

The Board needs to improve the claims auditing process. The District paid some claims without the prior approval of the responsible claims auditor. In addition, the claims auditor approved payments for non-BOCES claims that did not have adequate supporting documentation, that lacked sufficient evidence showing that the goods or services were received and that exceeded the authorized purchase order amounts.

The Clerk is responsible for entering purchase requisitions into the accounting system. The purchasing agent reviews and approves a requisition to authorize a purchase and the Clerk generates the purchase order. According to the District's written procedures, the Clerk is required to distribute the receiving copy of the purchase order to the person who will check in (receive) the goods. The receiving copy should then be included in the claims packet along with the original invoice, requisition and packing slip. Although not specified in the written procedures, it is a good business practice to have the person who receives the goods or services sign the receiving copy of the purchase order to acknowledge that the goods or services were received. However, instead of distributing the receiving copy of the purchase orders, the Clerk signs the receiving copy of all purchase orders herself when she prepares the claims packets, even though she is not the one who receives the goods or services. As a result, there is limited assurance that the District has actually received the goods and services that it is paying for.

After the Clerk prepares the claims packets, she submits them to the respective claims auditor for review and approval. However, the claims auditor responsible for auditing the BOCES claims resigned in early fall 2015 and the Board did not appoint a replacement until January 2016. The BOCES claims auditor did not audit any of the 2015-16 claims prior to resigning and the District continued to pay BOCES claims without an independent audit until the new BOCES claims auditor was appointed. District officials told us there was some confusion regarding the planned resignation date of the BOCES claims auditor, which resulted in the delay in filling the position.

For non-BOCES claims, the claims auditor generally stamps each claim to show approval and returns the claims to the Clerk.¹ The Clerk processes the final warrant for all claim payments and the Treasurer enters her password into the computerized system to authorize the checks to be printed with the Treasurer's signature on them. The claims and final warrant for non-BOCES claims are returned to the claims auditor and the claims auditors sign the warrants to authorize the Treasurer to pay the related claims. There is no process for the Treasurer to compare the approved warrant or actual claims approved by either claims auditor to the printed checks prior to issuance. As a result, claims may be paid that have not been audited and approved by the responsible claims auditor.

The District made 2,034 nonpayroll payments totaling about \$6.8 million during our audit period.² We examined 70 payments³

¹ In addition to stamping each claim, the claims auditor who audits the non-BOCES claims typically signs a pending warrant.

² Includes 1,702 nonpayroll check payments from the general fund (\$6,282,513), 155 from the school lunch fund (\$108,911), 77 from the special aid fund (\$344,548) and 100 from the trust and agency fund (\$48,992)

³ See Appendix B for our sample selection methodology.

totaling \$1.74 million to determine if they contained sufficient documentation, were properly authorized and approved, sufficiently itemized and for valid District purposes. We found deficiencies with 41 of the 70 payments, totaling \$1.69 million. These deficiencies included payments that were made prior to the claims being audited and approved, payments for claims that lacked adequate supporting documentation or evidence showing that the goods or services were received, and purchases that were made without a purchase order or that exceeded the purchase order amount.⁴

- 21 payments totaling \$1.64 million were made prior to being audited and approved by the claims auditor. Of these payments, 11 were to BOCES for health insurance⁵ and various services totaling \$1.45 million. Three claims were paid in the 2014-15 fiscal year when the BOCES claims auditor position was filled and the other eight claims were paid in the 2015-16 fiscal year when the BOCES claims auditor was not auditing the claims as required and then later resigned.⁶ The 10 non-BOCES claims paid prior to audit included a payment for the purchase of two school buses totaling \$155,075.
- Sufficient documentation was not maintained for 20 non-BOCES claims totaling \$198,456. For example, 16 claims totaling \$197,907 included receiving copies of purchase orders that were signed by the Clerk rather than the person who received the goods or services. The claims were for the two school buses (\$155,075) as well as other purchases totaling about \$42,832 for items such as musical instruments, textbooks, desks and chairs, computer hardware, teaching supplies and transportation supplies. In addition, four claims totaling \$549 lacked adequate supporting documentation such as a description of the item purchased, the individuals receiving meal reimbursements and the departure and arrival locations for mileage reimbursement.
- Documentation for three non-BOCES claims totaling nearly \$18,581 did not include purchase orders or exceeded the amount approved on the purchase order. For example, a payment for repairing and refinishing the gymnasium floor (\$17,500) exceeded the purchase order by \$4,500 and a payment for maintenance supplies totaling \$875 was only supported by one purchase order for \$106.

⁴ Some claims had more than one type of deficiency.

⁵ The District participates in health insurance plan with BOCES and other participating school districts.

⁶ The eight claims paid in 2015-16 were audited in February 2016, after the current claims auditor was appointed.

The deficiencies occurred for various reasons including because the Treasurer did not ensure that all claims were approved prior to signing checks. The Clerk also did not follow the District's written procedures for distributing the receiving copy of the purchase order and preparing the claims packet, and the claims auditors did not conduct a thorough audit of some claims.

In addition, the BOCES claims auditor was not required to submit monthly reports to the Board and did not report directly to the Board. Had the BOCES claims auditor been required to prepare monthly reports to the Board, the Board may have realized early during the 2015-16 fiscal year that BOCES claims were not being audited. The claims auditor who approves non-BOCES claims does prepare and submit monthly reports to the Board. However, 12 of the 16 reports submitted during our audit period had no findings and the reports did not identify any of the deficiencies found in our audit. Had the claims auditor identified these issues in the monthly reports, the Board would have been aware of them and could have initiated corrective action.

When claims are paid prior to audit and approval by a claims auditor or are paid without adequate supporting documentation or purchasing approvals, there is an increased risk that claims may not be for legitimate District purposes, that the goods or services may not have been received or that the District will pay more than the authorized and expected purchase amount.

Recommendations

The Board and District officials should ensure that:

1. The District's claims auditing policy is followed.
2. All claims are audited prior to being paid and that adequate supporting documentation is provided to the claims auditors for review.

The Treasurer should:

3. Compare the printed checks to the certified warrants of audited and approved claims prior to checks being issued.

The claims auditors should:

4. Ensure that all claims contain sufficient supporting documentation before approving the claims for payment.
5. Report claims audit findings directly to the Board on a regular basis.

APPENDIX A

RESPONSE FROM DISTRICT OFFICIALS

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



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August 25, 2016

Rebecca Wilcox, Chief Examiner
Office of the State Comptroller
State Office Building, Room 409
333 E. Washington Street
Syracuse, NY 13202-1428

Re: Claims Audit

Dear Ms. Wilcox,

The Harrisville Central School district is in receipt of your audit performed by your office.

In regards to the findings mentioned in your report, we offer the Corrective Action Plan as shown below.

1. The District's Claims Auditing Policy is followed.

The policy has been reviewed by all parties involved including both Claims Auditors.

2. All claims are audited prior to being paid and that adequate supporting documentation is provided to the claims auditor for review.

Our past claim auditor was located offsite and this required a week or more turnaround time for payments to be processed. On occasion we needed to make payments prior to auditing in order to meet certain deadlines. When this happened the paperwork would still be submitted to the auditor for review. Our new auditor will be onsite which will make this process more efficient.

- 3. The Treasurer should Compare the printed checks to the certified warrants of audited and approved claims prior to checks being issued.**

Effective September 1st, the new treasurer will be reviewing the checks prior to distribution.

- 4. The Claims Auditors should ensure that all claims contain sufficient supporting documentation before approving the claims for payment.**

The new claims auditor has received formal training to ensure that all requirements are met.

- 5. The Claims Auditors should report claims audit findings directly to the Board on a regular basis.**

The Claims Auditor for BOCES payments will submit a monthly report to the Board for review.

Thank you for the opportunity to help improve efficiency in our school district.

Sincerely,

Robert Finster
Superintendent

APPENDIX B

AUDIT METHODOLOGY AND STANDARDS

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

- We interviewed District officials to gain an understanding of the claims auditing and payment process. We reviewed Board meeting minutes, the Board's policy on auditing claims for payment, warrants and all monthly reports provided by the claims auditors to the Board for our audit period.
- We used a random number generator and selected a sample of payments that were processed from July 1, 2014 through October 31, 2015. Our testing included 42 general fund claims totaling \$189,970, four school lunch fund claims totaling \$1,268, two federal fund claims totaling \$29,208 and two trust and agency fund claims totaling \$1,078.
- We judgmentally selected 10 general fund claims paid to BOCES and 10 non-BOCES general fund claims that were paid during our audit period totaling \$1.52 million for examination. We selected these claims because they posed a higher risk of being paid without the prior approval of the responsible claims auditor.
- We reviewed the sample of claims to determine if they contained proper approvals, sufficient supporting documentation and evidence that they were for proper District purposes and the goods were received. We also determined whether they were approved by the claims auditors 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.

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