



Lake Placid Central School District Claims Auditing

Report of Examination

Period Covered:

July 1, 2014 – December 31, 2015

2016M-84



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 Lake Placid 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 Lake Placid Central School District (District) is located in the Towns of North Elba and Wilmington in Essex 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 two schools with approximately 700 students and 160 employees. The District's budgeted appropriations for the 2015-16 fiscal year are approximately \$18.1 million, which are funded primarily with State aid and real property taxes.

Objective

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

- Were claims supported by adequate documentation, for appropriate purposes and audited and approved prior to payment?

Scope and Methodology

We examined the District's claims auditing process for the period July 1, 2014 through December 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 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

With limited exceptions,¹ 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. Effective claims auditing procedures ensure that every claim against the District is subjected to an independent, thorough and deliberate review and contains adequate supporting documentation to determine whether it complies with statutory requirements and District policies, and that the amounts claimed represent actual and necessary District expenditures. In addition, it is important for the Board or its appointed claims auditor to determine whether the claims are properly itemized and supported and whether the District actually received the goods or services described on each claim. Furthermore, signed checks should only be generated after the claims are audited and approved for payment.

The Board appointed a claims auditor to assume its powers and duties to examine and approve or disapprove claims. To facilitate the claims auditing process, the Board adopted a claims auditor policy on June 19, 2012 outlining the responsibilities of the claims auditor. On a semimonthly basis, the claims auditor is provided with a warrant (i.e., list of claims) and the corresponding claims for her audit and approval. Once the claims auditor has completed her audit, she initials and dates each claim and signs the warrant to indicate the claims approved for payment.

Although we found that claims were generally supported by adequate documentation and were for appropriate purposes, they were not always audited and approved prior to payment. We found that the Business Manager, who also serves as the District's Treasurer (Treasurer), prints signed checks prior to the claims auditor's audit and approval of the corresponding claims. The Treasurer stated that checks have to be printed from the financial system in order to print a corresponding warrant. However, we found that the District's financial system can generate a report prior to the checks being printed that contains the same information as the warrant that was being provided to the claims auditor, except for the check numbers. When signed checks are generated prior to the claims auditor's audit and approval, there is an increased risk that improper claims could be paid by the District. In addition, the Treasurer stated that the District

¹ The Board may, by adopting a resolution, authorize payment in advance of audit for claims for public utility services (electric, gas, water, sewer and telephone), postage, freight and express charges. However, the claims for such prepayments must be presented at the next regular Board meeting for audit.

prepares and issues checks for certain claims² prior to the regular semimonthly claims audit to meet the payment deadlines. Claims for these disbursements are then presented to the claims auditor with other claims during the subsequent semimonthly cycle.

We reviewed 50 check disbursements³ totaling \$53,101 that were made to pay claims to determine whether the corresponding claims for the disbursements were supported by adequate documentation, for appropriate District purposes and audited and approved prior to payment.⁴ Except for a minor discrepancy which we discussed with District officials, all the claims reviewed were supported by adequate documentation and for appropriate District purposes. However, we found that the corresponding claims for two disbursements totaling \$2,484, which were for the payment of credit card charges and a payment to a hotel, were not audited and approved by the claims auditor prior to payment. This occurred because the District prepared and issued checks for these claims prior to the semimonthly claims audit to meet payment deadlines.

As a result of identifying certain claims that were paid prior to the claims auditor's approval in our initial review of claims, we reviewed the corresponding claims for an additional 20 check disbursements⁵ totaling \$40,803 that had checks dated outside of the regular semimonthly claims audit process. Except for minor discrepancies which we discussed with District officials, all the claims reviewed were supported by adequate documentation and for appropriate District purposes. However, we found that the corresponding claims for five disbursements totaling \$10,034 were not audited and approved by the claims auditor prior to payment, although they were required to be in accordance with Education Law. The five disbursements were for the payment of credit card charges, a mileage reimbursement, repairs to auditorium chairs, lecture fees and the purchase of sports apparel.

² Generally, this includes claims which may be late if not paid before the subsequent semimonthly cycle.

³ Our sample consisted of selecting, without any known bias, 50 check disbursements throughout our audit period.

⁴ Because the signed checks were printed for all claims prior to the claims auditor auditing and approving claims, we could not determine with certainty whether the checks were, or were not, issued to vendors prior to the claims being approved. However, we compared the dates the checks cleared the bank to the dates the claims auditor approved the claims and if a check cleared the bank prior to the related claimed being approved, we concluded that the claims had in fact been paid prior to the claims auditor approval.

⁵ Our sample consisted of selecting 20 check disbursements that had check dates outside of the regular semimonthly claims audit process and were issued throughout our audit period.

Although we did not find any material discrepancies, when signed checks are generated prior to the claims auditor's audit and approval of claims and certain claims are actually paid in advance of the claim auditor's approval, there is an increased risk that improper claims could be paid against the District and remain undetected.

Recommendations

The Treasurer should:

1. Only print signed checks after the claims have been audited and approved by the claims auditor.
2. Ensure that no claim against the District, other than those allowed under Education Law, is paid prior to audit and approval by the claims auditor.

APPENDIX A

RESPONSE FROM DISTRICT OFFICIALS

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

Board of Education

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Mary Dietrich
Vice President
John Hopkinson

Jeffrey Brownell
Patricia Gallagher
Richard Preston
Camelia Sheridan
Patricia Stanton

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Business Manager/Treasurer
Leonard Sauers, ext. 3004
District Clerk
Karen Angelopoulos, ext. 3001
Deputy Treasurer
BeBe Bickford, ext. 3005
Tax Collector
Laurie Baumbach, ext. 3003
Administrative Assistant
Tracey Ridenour, ext. 3010

May 10, 2016

Jeffrey P. Leonard, Chief Examiner
Office of the State Comptroller
One Broad Street Plaza
Glens Falls, New York 12801-4396

Dear Mr. Leonard,

This is the response and corrective action plan for the Lake Placid Central School audit report (2016M-84).

The Lake Placid Central School District Board of Education and administration acknowledge receipt of the referenced draft report of the recent audit conducted by your office. We have reviewed the report and concur with its findings.

We implemented the corrective action plan starting on April 21, 2016. Specifically, our claims auditor is now auditing all claims before the checks are processed. The claims auditor is utilizing a report that shows all processed vouchers waiting to have checks printed and verifying the payment amount to the voucher source documents.

The following is our detailed corrective action taken.

- **Audit Recommendation:** The Treasurer should: 1) Only print signed checks after the claims have been audited and approved by the claims auditor. 2) Ensure that no claims against the District, other than those allowed under Education Law, be paid prior to audit and approval by the claims auditor.
- **Implementation Plan of Action(s):** The claims auditor is auditing all claims before the checks are printed. The claims auditor uses the (checks waiting to be printed) report to verify the payment amount with the payment voucher source documents. Once the vouchers are approved for payment by the claims auditor, the vouchers are reviewed again to ensure that no claims against the District are paid prior to audit and approval by the claims auditor. After this review process, the Treasurer cuts the checks and the checks are mailed to the vendors.

- **Implementation Date:** The corrective action was implemented on April 21, 2016.
- **Person Responsible for Implementation:** The Business Manager/Treasurer is the person responsible for this corrective action.

On behalf of the Lake Placid Central School Board of Education and administration, we would like to thank the audit staff involved with our examination for the professional, courteous, and respectful manner exhibited here at the Lake Placid Central School District. We appreciate their effort and the information provided us during the audit.

Signed:

Roger Catania, Superintendent

Date

5/12/2016

APPENDIX B

AUDIT METHODOLOGY AND STANDARDS

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

- We reviewed the Board minutes during our audit period to determine if the Board appointed a claims auditor during the 2014-15 and the 2015-16 fiscal years in accordance with Education Law.
- We interviewed District officials and employees and reviewed the District's policy manual and various financial records and reports to gain an understanding of the District's procedures related to claims auditing and any associated effects of deficiencies in those procedures.
- We reviewed 50 check disbursements that were made during our audit period to determine whether the corresponding claims for those disbursements were supported by adequate documentation, for appropriate District purposes and audited and approved prior to payment. We also reviewed the corresponding claims for an additional 20 check disbursements that had checks dated outside the regular semimonthly claims audit process for the same purposes.

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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