

Fabius-Pompey Central School District

Claims Auditing

JULY 2022



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

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Report Highlights

Fabius-Pompey Central School District

Audit Objective

Determine whether Fabius-Pompey Central School District (District) claims were adequately documented, for appropriate purposes and were properly audited and approved prior to payment.

Key Findings

We reviewed 100 claims totaling approximately \$5.3 million and found that they were adequately documented and for appropriate purposes. However, the District needs to improve the claims audit process because some claims were not subject to an independent claims audit and some were not properly approved before they were paid, as follows:

- Twelve claims totaling approximately \$3.3 million paid to the Onondaga-Cortland-Madison Board of Cooperative Educational Services (BOCES) were inappropriately audited by a BOCES employee who functioned as the District's claims auditor.
- The Treasurer paid five claims totaling \$11,692 without the required claims auditor's certification and authorization.

Key Recommendations

- Ensure that BOCES claims are audited and approved by someone other than the BOCES claims auditor.
- Only pay claims that have been approved and certified for payment by the claims auditor.

District officials generally agreed with our recommendations and have initiated or indicated they planned to initiate corrective action.

Background

The District serves the Towns of Cazenovia in Madison County, Cuyler in Cortland County, and Fabius, LaFayette and Pompey in Onondaga County.

The District is governed by an elected seven-member Board of Education (Board), which is responsible for managing and controlling the District's financial and educational affairs. The Superintendent of Schools is the District's chief executive officer and, along with other administrative staff, is responsible for the District's day-to-day management under the Board's direction.

The Business Administrator oversees the District's business and accounting operations. The Board contracted with BOCES, through a shared services agreement, for the BOCES' Central Business Office to perform the District's treasury and accounts payable functions and to audit and approve claims.

Quick Facts

2021-22 Appropriations	\$20 million
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Claims Processed During Audit Period

Number of Claims	1,445
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Dollar Amount of Claims	\$13.4 million
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Audit Period

July 1, 2020 – December 31, 2021

Claims Auditing

District officials contracted with BOCES through a cooperative service agreement for a variety of financial-related services. As part of the agreement, BOCES provided the District with a Treasurer, accounts payable clerk and a claims auditor. Several different BOCES employees served as the District's claims auditor during our audit period.

How Should a Board Ensure Claims Are Properly Audited?

Generally, a school district (district) board (board) must audit all claims before they are paid¹ or appoint a claims auditor to audit and approve the district's claims. A board may delegate the claims audit function by appointing a district employee, independent contractor or an individual employed through an intermunicipal cooperative agreement or through shared services, to the extent authorized by law, to audit the district's claims.

According to New York State Education Law Section 1709 (20-a), when a board delegates the claims audit function using a shared service or contractual arrangement, the board should audit all claims from the entity that provides the claims audit service, or delegate the audit and approval of these claims to another independent party. In addition, clerical or professional personnel who are directly involved in a district's accounting and purchasing functions cannot be appointed as the district's claims auditor or deputy claims auditor.

An effective claims processing system ensures that every district claim is independently, thoroughly and deliberately reviewed. A board or appointed claims auditor should ensure that every claim contains enough supporting documentation to determine whether it complies with statutory requirements and district policies and whether the amounts claimed represent actual and necessary district expenditures.

In addition, a board or appointed claims auditor should determine whether claims are properly itemized, have adequate supporting documentation and whether the district has received the goods or services described in each claim.

The District Needs to Improve Its Claims Auditing Process

The District needs to improve its claims auditing process to help ensure all claims are subject to an independent audit and are properly authorized before payment.

The District's tax collector compiled all claims and supporting documentation and submitted them to the accounts payable clerk who entered the payment

...[T]he board should audit all claims from the entity that provides the claims audit service or delegate the audit and approval of these claims to another independent party.

¹ A board may pass a resolution that authorizes the treasurer to pay certain claims (e.g., public utility services such as electric, gas, water, sewer and telephone; postage; and freight and express charges) before they are audited. The board or claims auditor should audit these claims as soon as possible, and the claims should be included on the next warrant (a list of claims) as prepaid amounts.

information into the financial accounting system. The accounts payable clerk then created a preliminary warrant (prewarrant), which is a list of claims entered in the system before the checks were printed and signed.

The accounts payable clerk provided the claims and prewarrant to the claims auditor who reviewed the claims and compared payment information in the claims and prewarrant. The claims auditor then stamped each claim with language indicating that the claim had been audited and certifying that the Treasurer was authorized to pay it. Within the stamped language, the claims auditor initialed, dated and included the amount to be paid. If the claims did not contain any problems or discrepancies, the claims auditor also signed the prewarrant.

If the claims auditor identified any exceptions from this review (e.g., an incorrect payee or dollar amount, additional documentation was required or sales tax was incorrectly included), the claims auditor notified the accounts payable clerk that corrections were needed. After the accounts payable clerk generated a revised prewarrant, the claims auditor verified that the corrections were made and signed the revised prewarrant, if necessary.

The accounts payable clerk provided the prewarrant and all certified claims to the Treasurer indicating that the claims were audited and ready to be paid. The certified claims provided the Treasurer with the authorization to make the payments. The Treasurer then created the final warrant in the accounting software and prepared checks for payment.

The accounts payable clerk provided a copy of the final warrant to the claims auditor who compared it with the previously approved prewarrant and then signed and dated the final warrant. The claims auditor then sent the final warrants to the Business Administrator who provided them to the Board. The claims auditor's final warrant certification was typically done after the claims had been paid, so the final warrant was not used to authorize payments by Treasurer.

We reviewed 100 claims² totaling approximately \$5.3 million to determine whether the claims had adequate supporting documentation (such as itemized invoices or accompanying receipts showing the amount and quantity of the goods or services purchased) and included evidence showing that the goods or services were received. We also determined whether the claims were mathematically accurate, had supporting documentation to show that the claim was for legitimate District purposes, complied with District policies and were properly audited and approved by an independent claims auditor before being paid.

² Refer to Appendix B for further information on our sample selection.

We found that 12 BOCES claims totaling approximately \$3.3 million for contracted services were inappropriately audited and approved by the claims auditor who is a BOCES employee. This arrangement compromised the claims auditor's objectivity and independence because the claims auditor was responsible for approving payments to their employer.

This arrangement compromised the claims auditor's objectivity and independence. ...

The Business Administrator told us that he believed the tax collector was auditing the BOCES' claims separately, as the Board-appointed deputy claims auditor. However, the tax collector told us she did not audit these claims or any other District claims. In addition, the tax collector would be prohibited from auditing any District claims because she is involved in accounting and purchasing functions.

We also found that five other claims totaling \$11,692 were paid without the claims auditor's required certification. In addition, the claims auditor could not locate the prewarrant that contained these claims. Three of the claims totaling \$9,772 were for purchases made with a District credit card. Although we determined that all five claims were for valid District purposes, the Treasurer improperly paid the claims that were not approved for payment.

We found minor deficiencies with the remaining claims, which we discussed with District and BOCES officials. When claims are not subject to an independent audit, or they are paid without the claims auditor's written authorization, the District has an increased risk that it could make inaccurate or improper payments for goods and services.

What Do We Recommend?

The Board should:

1. Ensure that BOCES claims are independently audited by someone who is not a BOCES employee or involved in the District's accounting or purchasing functions.

The Treasurer should:

2. Only pay claims that have been approved and certified for payment by the claims auditor.

The claims auditor should:

3. Certify claims that have been audited and approved.

Appendix A: Response From District Officials

FABIUS-POMPEY CENTRAL SCHOOL DISTRICT

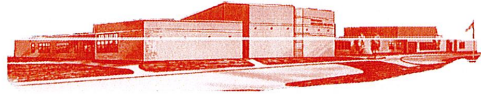
1211 Mill Street
FABIUS, NEW YORK 13063

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Donald Neugebauer, President
Eric Exelby, Vice President
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Lloyd L. Peck, Ed.D.



MIDDLE SCHOOL - HIGH SCHOOL
(315) 683-5811

DISTRICT OFFICE
(315) 683-5301 / FAX (315) 683-5827



ELEMENTARY SCHOOL
(315) 683-5857

BUSINESS ADMINISTRATOR
Daniel S. Silky

Rebecca Wilcox, Chief Examiner
State Office Building, Room 409
333 E. Washington Street
Syracuse, New York 13202-1428

Dear Rebecca Wilcox,

In response to the Claims Auditing Report of Examination (2022M-83) issued to the Fabius-Pompey Central School District (the "District"), the District is in general agreement with the findings concerning the BOCES claims audit process and other claims paid without the required claims auditor certification and authorization.

The BOCES bills are reviewed each month by District business office personnel prior to payment by the Treasurer; however, the District now understands that the review process is not suitably designed to satisfy the criteria of an effectively operating claims audit process.

Regarding the other claims paid without required claims auditor certification and authorization, these were processing errors that failed to follow the otherwise suitably designed and effectively operating process.

The District will respond with the Corrective Action Plan (CAP) within the required time period so that the aforementioned findings are addressed. The District would like to thank the OSC audit team from the Syracuse regional office for its professionalism conducted throughout the audit period.

Respectfully submitted,

Daniel S. Silky
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Fabius-Pompey CSD
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Appendix B: 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 Article 3 of the New York State General Municipal Law. To achieve the audit objective and obtain valid audit evidence, our audit procedures included the following:

- We assessed internal controls over the claims audit process by reviewing policies and procedures, reviewing Board meeting minutes and interviewing District and BOCES officials and staff to gain an understanding of the claims audit process.
- We examined a random sample of 50 claims totaling \$1,290,442, which we selected using a computerized spreadsheet function. We also examined all 12 BOCES claims totaling \$3,316,290 paid during our audit period. We reviewed these claims to determine whether the claims auditor audited and approved them before they were paid. In addition, we determined whether the claims had adequate invoices, supporting documentation and evidence showing that the goods or services were received; were accurate and for legitimate purposes; and complied with District policies.
- We used our professional judgment to select an additional 38 claims totaling \$701,154 and tested them for the same parameters as in our random sample of 50 claims and 12 BOCES claims. We selected the 38 claims based on those that had a higher potential risk of being for inappropriate District expenditures, including payments to Board members or other officials and purchases from unrecognized vendor names, paid by credit cards and purchases from vendors that were potentially unrelated to District operations.
- We compared the certification dates on the individual claims and final warrants to check-issued dates.

We conducted this performance audit in accordance with generally accepted government auditing standards (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.

The Board has the responsibility to initiate corrective action. 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, 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. 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 CAP should be posted on the District's website for public review.

Appendix C: Resources and Services

Regional Office Directory

www.osc.state.ny.us/files/local-government/pdf/regional-directory.pdf

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

www.osc.state.ny.us/local-government/publications

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

www.osc.state.ny.us/local-government/fiscal-monitoring

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

www.osc.state.ny.us/local-government/publications

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

www.osc.state.ny.us/local-government/resources/planning-resources

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

www.osc.state.ny.us/files/local-government/publications/pdf/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/local-government/required-reporting

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

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