

Holland Central School District

Claims Audit

MARCH 2022



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

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Report Highlights

Holland Central School District

Audit Objective

Determine whether the Holland Central School District (District) Board of Education (Board) ensured that claims were adequately supported and properly audited before payment.

Key Findings

The Board did not ensure that claims were adequately supported and properly audited before payment. In addition, the current claims auditor did not receive proper training to fulfill the Board's claims audit responsibilities. As a result, there is an increased risk that improper or unsupported payments could be made and not be detected and corrected.

- We reviewed 75 of 1,661 claims totaling \$1,804,573 and found that claims were not always adequately supported as follows:
 - 47 claims totaling \$596,495 lacked adequate documentation to demonstrate that officials complied with the procurement policy.
 - 13 claims totaling \$59,956 lacked sufficient supporting documentation such as itemized invoices or detail of services provided.
- Further, the Board did not comply with Education Law¹ and its own policy when it appointed the Superintendent's secretary as the Board's claims auditor for 12 of 14 months.

Key Recommendations

- Ensure that the claims auditor is properly trained and that claims contain sufficient supporting documentation and are audited and approved before payment.

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

¹ New York State Education Law Section 1709 (20-a)

Background

The District serves the Towns of Holland, Colden, Wales, Sardinia, Concord and Aurora in Erie County and the Towns of Java and Sheldon in Wyoming County.

The seven-member Board is responsible for the District's general management and control of financial affairs.

The Superintendent of Schools (Superintendent) is the chief executive officer responsible for the District's day-to-day management. The Business Official oversees the District's business operations including the accounts payable department which is responsible for processing claims.

The Board-appointed claims auditor is responsible for ensuring that claims are properly supported and meet procurement policy requirements.

Quick Facts

2020-21 Appropriations	\$25,776,160
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Claims Processed During the Audit Period

Number of Claims	1,661
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Dollar Amount of Claims	\$13,859,379
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Audit Period

July 1, 2020 – November 9, 2021

Claims Audit

How Should a Board Ensure Claims Are Properly Audited?

Generally, a board must audit all claims against a school district before they are paid² or appoint a claims auditor to assume the board's powers and duties to audit and approve claims. If the board appoints a claims auditor, the individual must have the skills to effectively audit claims, including experience with purchasing, competitive bidding and processing claims. In addition, New York State Education Law Section 1709 (20-a) prohibits individuals in certain school district positions including board members, board clerk, board treasurer and individuals that directly report to the superintendent from serving as the claims auditor. The basis for this prohibition is the need to properly segregate the audit and authorization function from the approval and payment functions.

A board and school district officials should establish a written policy and written procedures which detail the claims auditor's duties and specifically explains the responsibilities for reviewing claims. A claims auditor's responsibilities include determining whether claims are for a valid and legal purpose, properly authorized and approved, mathematically correct, sufficiently itemized, and to determine if procurement requirements are followed. A claims auditor is also responsible for verifying that the school district received the goods or services described, the claim had not been paid before and to ensure sufficient documentation is attached including detailed receipts, invoices and receiving documentation. In addition, the claims auditor should document the approval of claims, which is generally provided through the preparation of a warrant of audited claims. If deficiencies are found, the claim should be held until actions are taken to correct the deficiency.

The Board Did Not Comply with Policy Requirements or Provide Adequate Guidance to the Claims Auditor

The Board adopted a written claims auditing policy to serve as guidance to Board members on appointing a claims auditor and to the claims auditor in performing her duties. The policy listed the prohibited positions that could be appointed claims auditor. However, the Board did not comply with its policy, and Education Law Section 1709 (20-a), when appointing a claims auditor. For 12 of the 14 months in our audit period, the appointed claims auditor was the secretary to the Superintendent, who is under the direct supervision of the Superintendent.³ As claims auditor, she would be required to audit and approve claims her supervisor, the Superintendent, had initiated and approved. Prior to the start of our audit,

² A board, by resolution, may authorize payment in advance of audit for public utility services (electric, gas, water, sewer and telephone), postage and freight and express charges. The claims for such prepayments should be audited as soon as possible after payment and included on the next warrant (list of claims scheduled for payment) as prepaid amounts.

³ This individual was the claims auditor from July 2019 through June 2021.

the Board appointed a new claims auditor for the 2021-22 fiscal year, who is not under the direct supervision of the Superintendent.

Although the Board's policy provided the claims auditor with some guidance for performing her duties, the policy did not include the specific procedures and requirements for reviewing a claim or provide a written job description to ensure the claims auditor clearly understands how to perform her responsibilities and meet Board expectations.

The two individuals who served as claims auditor during our audit period told us that in order to complete their reviews, they compared the amount of the claim and the vendor's name and address to the information on the supporting invoice. In addition, they verified that the invoice was approved by the department head. If the invoice was approved by the department head, the claims auditors told us they assumed the department head had obtained quotes and verified that goods and services were provided as contracted. Therefore, they did not review or verify this information. The claims audit process described to us by the claims auditors was more of a cursory review than a deliberate and thorough claims audit. In addition, the claims auditor appointed in July 2021 told us that as of November 2021 a BOCES⁴ training course she planned to attend had not been available. However, we informed the claims auditor that our office also offers online training on the claims auditing process.⁵

Because the Board did not provide the claims auditors with specific, well-defined procedures or ensure they took training for auditing claims, the claims auditors were not performing an adequate claims audit and there is an increased risk that improper or unsupported payments could be made and not be detected and corrected.

Claims Were Not Audited Prior to Payment

Claims were routinely paid prior to being audited and approved by the claims auditor. As part of the District's claims process, the claims auditor would not audit or review claims until after the claims are processed for payment and checks had already been printed and mailed.

The account clerk typist (clerk), who processed accounts payable, prepared the claims for audit by compiling supporting documentation (e.g., purchase orders, invoices, packing slips, etc.) into a claims package and adding the claims to an electronically prepared warrant which was presented to the Business Official, on a weekly basis, to approve for payment. Once the Business Official approved the warrant, the checks were printed and mailed.

⁴ Board of Cooperative Educational Services

⁵ <https://www.osc.state.ny.us/local-government/academy>

Although the Business Official approved the warrant weekly, the claims auditor was only provided with a copy of the warrant, check stubs and the corresponding claims packages for audit and approval biweekly after the claims had already been paid. The clerk told us that this had been the District's claims audit process since prior to her starting in this position in early 2020. The Business Official told us that she was aware it was not appropriate to pay the claims prior to audit, but she believed that the District's process to prepare and approve claims was adequate even if the claims auditor approved after payments were made.

In addition, we spoke to three Board members regarding the claims audit process and found that the Board was not generally aware of the District's claims audit process. Two Board members told us they thought the claims were paid after audit and one Board member told us she was unsure when the claims were paid.

When checks are printed and mailed before claims are audited, the effectiveness of the claims audit process is diminished and there is an increased risk that improper or deficient claims could be paid. Our testing, discussed in more detail below, demonstrated that claims without sufficient supporting documentation were paid. Once claims are paid, the District could have difficulty recovering unauthorized or improper payments.

Claims Were Not Always Supported by Sufficient Documentation

We reviewed a sample of 75 claims paid by check during our audit period, totaling \$1,804,573⁶ to ensure they were properly approved by the purchasing agent and department head, contained adequate supporting documentation, were appropriate District charges and that District officials complied with the requirements of the procurement policy. These claims included reimbursements to District officials and payments for the purchase of goods and services. All 75 claims reviewed were for appropriate District purposes and generally included the appropriate approvals. However, we found that several claims did not have sufficient documentation.⁷

- 47 claims, totaling \$596,495, did not contain evidence that District officials complied with the District's procurement policy.⁸ For example, claims for

6 See Appendix B for information on our sampling methodology.

7 Some claims had multiple exceptions.

8 The policy requires competitive bidding of all purchase contracts for supplies, materials and equipment involving expenditures in excess of \$20,000 and all contracts for public works in excess of \$35,000. For purchases of services, supplies, and equipment three informal written quotations are required for purchases from \$1,001 to \$5,000 and three formal requests for proposals or quotations from \$5,001 to \$20,000. For public works contracts three informal written quotations are required for purchases from \$2,001 to \$10,000 and three formal requests for proposals or quotations from \$10,001 to \$35,000.

the following purchases lacked documentation of bids or quotes, or other evidence that officials complied with the procurement policy:

- Concrete bleacher pads totaling \$30,000,
 - Office furniture totaling \$24,829,
 - Fuel purchases totaling \$21,552,
 - Partial payment of a video surveillance system totaling \$17,315, and
 - Parking lot sealing totaling \$15,075.
- 13 claims totaling \$59,956 did not contain sufficient itemization of goods or services received. Some examples included:
 - One claim for a heating, ventilation and air conditioning vendor, for \$28,500, included an invoice that did not list or describe the goods or services provided.
 - One claim for occupational therapy and physical therapy services totaling \$10,143 was not itemized with information such as the dates of services or how many students were provided services.
 - One claim for a “refund for an iPad replacement,” totaling \$514, did not have any documentation attached. Officials told us this was to refund a parent for an iPad the parent paid to replace, which was subsequently found and returned to the District. However, there was no documentation of the original payment or the purpose of the refund in the claim’s package.

The Business Official told us that because she reviewed and approved the claims to be paid, she was aware that they were for appropriate District purposes and that the appropriate bids and quotes were obtained. However, the documentation for bids and quotes were retained by the District official who requested the purchase and were not provided to the Business Official, accounts payable clerk or claims auditor. If the claims auditor is not provided with sufficient supporting documentation she cannot carry out the essential functions of her job, which include determining whether claims are valid District expenditures and in compliance with District policies such as the procurement policy. Further, when claims are paid without adequate supporting documentation, there is an increased risk the District could incur unnecessary costs or pay for goods and services that were not actually received or were not for proper District purposes.

What Do We Recommend?

The Board and District officials should:

1. Develop written procedures to define the claims auditor's duties and provide guidance to the claims auditor in carrying out her responsibilities.
2. Ensure that the appointed claims auditor meets the District's policy requirements, and statute, for eligibility for appointment.
3. Ensure claims are audited and approved by the claims auditor before payment.

The claims auditor should:

4. Conduct a thorough and deliberate audit of each claim before authorizing payment to ensure each claim is accurate, properly authorized and approved, for a valid District purpose and in compliance with District policies.
5. Ensure that claims contain sufficient supporting documentation before approving them for payment.
6. Attend applicable and beneficial training sessions to better understand and perform her duties as claims auditor. Training provided by OSC can be found at: <https://www.osc.state.ny.us/local-government/academy>.

The Business Official should:

7. Discontinue the practice of paying claims prior to a thorough audit and approval by the claims auditor.

Appendix A: Response From District Officials



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March 1, 2021

Melissa A. Myers, Chief Examiner
Office of the State Comptroller
Buffalo Regional Office
295 Main Street, Suite 1032
Buffalo, NY 14203-2510

Dear Ms. Myers:

The Holland Central School District is in receipt of the draft copy of the audit report titled Claims Audit, Report of Examination 2021M-210 for the period July 1, 2020 – November 9, 2021. Please accept this letter to serve as the District's formal response and Corrective Action Plan (CAP) to the draft report.

The district acknowledges the validity of the audit finds and is satisfied, given the length and depth of the examination of the District's internal controls, that we are generally promoting efficiency and protecting the District's assets from loss or misuse. With that said, the District views this audit as an opportunity to review, strengthen, and improve our procurement processes and ensure that clear and consistent procurement processes are developed and followed.

Audit Recommendation #1 - Develop written procedures to define the claim auditor's duties and provide guidance to the claims auditor in carrying out her duties & **Audit**

Recommendation #6 – Attend applicable and beneficial training sessions to better understand and perform her duties as claims auditor.

Implementation of Action Plan: Board Policy 1335 – Appointment and Duties of the Internal Claims Auditor was shared with the claims auditor. The business official requested training for the newly appointed claims auditor in July of 2021. There was a delay due to COVID-19. Erie 1 BOCES held their annual Internal Claims Auditing workshop on November 17, 2021, and the claims auditor took that training. Duties of the Internal Claims Auditor were reviewed at this training. Additionally, the claims auditor attended the OSC webinar, "Improving the Effectiveness of Your Claims Auditing Process" on February 16, 2022 to further increase her knowledge and understanding of her duties as claims auditor.

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Audit Recommendation #2 – Ensure that the appointed claims auditor meets the District’s policy requirements, and statute, for eligibility of appointment.

Implementation of Action Plan: The claims auditor appointed in July 2021 meets all the criteria for eligibility of appointment.

Audit Recommendation #3 – Ensure claims are audited and approved by the claims auditor before payment, **Audit Recommendation #4** – Conduct a thorough and deliberate audit of each claim before authorizing payment to ensure each claim is accurate, properly authorized and approved, for a valid District purpose and in compliance with District policies & **Audit Recommendation #7** – Discontinue the practice of paying claims prior to a thorough audit and approval by the claims auditor.

Implementation of Action Plan: Claims are thoroughly audited and approved by the claims auditor as well as the actual checks printed, prior to checks being mailed out for payment. The Business Official wants to ensure that the checks for payment match the amount of the claims, as well as the claims’ vendor names and mailing addresses. The checks are not mailed out until after the claims auditor verifies and thoroughly audits the entire claims packet. Implementation period – Immediate.

Recommendation #5 – Ensure that claims contain sufficient supporting documentation before approving them for payment.

Implementation of Action Plan: The claims auditor will ensure that sufficient supporting documentation exists before approving claims for payment. The business official shared the purchasing policies with all employees involved in the district’s purchasing process, particularly because every administrator and department head is relatively new to the district. All have been instructed that the documentation of quotes, competitive bids, BOCES bids, and State Contract pricing must accompany the claims. The business administrator is charged with ensuring purchases are made in compliance with the District’s policies and procedures and that a competitive process is used when bidding is not required. Implementation period – Immediate.

We appreciate the time, professionalism, and expertise extended by the office of the State Comptroller’s auditors which in turn, will help the District ensure that claims are adequately supported and properly audited.

Sincerely,

Eric J. Layton
Superintendent

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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 interviewed District officials, including Board members, claims auditors and other employees, and reviewed policies, regulations, procedures and Board meeting minutes to gain an understanding of the District's process to prepare, approve, audit and pay claims.
- From a population of 1,661 claims, we used our professional judgment to select a sample of 75 claims totaling \$1,804,573. We selected our sample to include claims reviewed by both claims auditors during our audit period and to include claims for a variety of vendors, claims for District officials and individuals, and claims for unusual or unique vendors.
- We reviewed these claims to determine whether the claims were: for an appropriate District purpose, adequately supported, properly authorized and approved, contained evidence that the goods or services were actually received, in compliance with Board-adopted policies and audited and approved before payment.

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.

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.

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

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

Training – Resources for local government officials on in-person and online training opportunities on a wide range of topics

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

Contact

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