

North Greenbush Common School District

Claims Auditing

OCTOBER 2022



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

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Report Highlights

North Greenbush Common School District

Audit Objective

Determine whether the North Greenbush Common School District (District) Board of Education (Board) ensured claims were supported, appropriate and audited and approved prior to payment.

Key Findings

While claims were supported and for appropriate purposes, the Board did not ensure claims were properly audited and approved before payment from July 1, 2020 – October 2021. Individuals prohibited from serving as the claims auditor, because they were directly involved in accounting or purchasing functions, audited and approved claims resulting in an increased risk that improper or deficient claims could be paid. The District appointed a new claims auditor in October 2021. Of 50 claims reviewed totaling \$1.4 million:

- 27 claims totaling \$1.1 million were audited and approved by the former Superintendent while also serving as the purchasing agent and the audit and approval was not dated.
- Seven claims totaling \$201,609 showed no evidence of audit and approval.

Key Recommendations

- Ensure the appointed claims auditor audits and approves the claims before payment. If a claims auditor is not appointed, ensure the Board audits and approves claims.
- Request and receive signed warrants or other reports from the claims auditor.

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

Background

The District is located in the Town of North Greenbush in Rensselaer County and operates one school for 22 students from kindergarten through second grade. The District pays tuition for approximately 160 students in grades three through 12 to attend one of the other four local school districts.

The three-member elected Board is responsible for the general management and control of financial and education affairs. The Superintendent of Schools (Superintendent) is the chief executive officer and, along with other administrative staff, is responsible for day-to-day management under the Board's direction.

The Board-appointed claims auditor is responsible for ensuring that claims are properly supported, for appropriate purposes and approved prior to payment.

Quick Facts

| Paid During Audit Period | |
|--------------------------|---------------|
| Claims | 601 |
| Total Claims | \$5.4 million |
| Reviewed | |
| Claims | 50 |
| Total Claims | \$1.4 million |

Audit Period

July 1, 2020 – March 31, 2022

Claims Auditing

How Should a School Board Ensure Claims Are Properly Audited?

Generally, a school board must audit all claims before they are paid or appoint a claims auditor to assume the board's powers and duties to audit and approve claims. To maintain proper segregation of duties, individuals in certain positions including a board member, a board clerk or treasurer, the superintendent, the person designated as purchasing agent and individuals directly involved in accounting and purchasing functions are prohibited from serving as claims auditor.

A claim package should contain enough detail and documentation to determine the claim is for a legitimate district purpose, mathematically correct, agrees with the original invoice and the purchase was approved. There should be documentation that confirms that the goods were received, or services rendered and the audit and approval of claims should be documented.

Appointed claims auditors should indicate their approval of claims by signing an abstract or warrant of audited claims authorizing and directing the treasurer to pay the claims. The appointed claims auditor should report to the board on the results of the claims auditing process so that if a problem arises, it can be addressed within the board's powers and duties and the problem and its eventual resolution can be discussed with the board.

Claims Were Not Audited By the Appointed Claims Auditor

The Board appointed a qualified claims auditor for the 2020-21 fiscal year and assumed the claims auditing responsibility themselves for the 2021-22 fiscal year. However, the former Superintendent audited and approved claims during our audit period through June 30, 2021 while also serving as the purchasing agent, which prohibited her from serving as claims auditor. Even if she was not serving as the purchasing agent, a Superintendent should not serve in the role of the claims auditor.

This occurred because the appointed claims auditor worked remotely which prevented her from performing an appropriate audit of claims. Instead, the Superintendent at the time audited claims and approved payments for the 2020-21 fiscal year without the authority to do so. While there is no substitute for a proper claims audit, the Superintendent then directed the appointed claims auditor to review canceled checks when she reconciled bank accounts monthly, as an after-the-fact independent review. In lieu of the Superintendent auditing claims, the appointed claims auditor should have made the Board aware of her concerns and the Board should have appointed a qualified individual that could perform a proper audit of claims or audited the claims themselves.

... [T]he former Superintendent audited and approved claims during our audit period through June 30, 2021 while also serving as the purchasing agent, which prohibited her from serving as claims auditor.

Board members were provided a Treasurer’s report consisting of bank statements and reconciliations to see who was paid for the month. However, they did not receive or request warrants or other claims audit reports. As a result, they were not aware that the appointed claims auditor was not performing this function during 2020-21 and that warrants were not signed authorizing and directing the Treasurer to pay claims.

The current Superintendent and Business Administrator recognized the need for a claims auditor when they started in July 2021. Instead of the Board performing the function from July 2021 to October 2021, when it appointed a new claims auditor, the current Business Administrator began auditing and approving claims while also serving as the purchasing agent. During this three-month period, the Superintendent and Business Administrator were focusing on other District priorities, including an ongoing capital project, while searching for a qualified claims auditor and the Board continued receiving Treasurer’s reports consisting of bank statements and reconciliations without warrants or other claims audit reports.

Of the 50 claims we reviewed¹ totaling \$1.4 million:

- 27 claims totaling \$1.1 million were audited and approved by the former Superintendent while also serving as purchasing agent and the audit and approval was not dated,
- Five claims totaling \$5,594 were audited and approved by the current Business Administrator while also serving as the purchasing agent, and
- Seven claims totaling \$201,609 showed no evidence of audit and approval.

All 10 claims included in our sample for the period after the new claims auditor was appointed were appropriately audited and approved by the claims auditor. All 50 claims were for appropriate District purposes and included evidence of receipt.

When claims are audited by the District’s purchasing agent or another prohibited individual, the effectiveness of the claims audit process is diminished and there is an increased risk that improper or deficient claims could be paid. Without warrants or other reports from the claims auditor, the Board is unable to address problems that could arise and be resolved within their powers and duties. Once claims are paid, the District could have difficulty recovering unauthorized or improper payments.

All 10 claims included in our sample for the period after the new claims auditor was appointed were appropriately audited and approved

¹ Refer to Appendix B for further information on our sample selection.

What Do We Recommend?

The Board should:

1. Ensure the appointed claims auditor audits and approves the claims before payment. If a claims auditor is not appointed, ensure the Board audits and approves claims.
2. Request and receive signed warrants or other reports from the claims auditor to know what claims have been approved for payment and to address problems that arise.

Appendix A: Response From District Officials

The District's response letter refers to page numbers that appeared in the draft report. The page numbers may have changed during the formatting of this final report.



NORTH GREENBUSH COMMON SCHOOL DISTRICT

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North Greenbush Common School District
Office of State Comptroller Audit Report of Examination

Claims Auditing Report Number: 2022M-112

Combined Audit Response Letter and Corrective Action Plan

The North Greenbush Common School District accepts the findings and recommendations of the OSC audit team as indicated on page 5 of the Report of Examination.

It should be noted that the work of the new claims auditor who was appointed in October 2021 has continued to bring reliable and consistent organization to the District's claims audit process.

In an effort to continue improving its financial reporting and record keeping processes, on July 1, 2022 the School District converted its separate payroll, budgeting and purchasing/accounts payable systems to the [REDACTED] [REDACTED] allows school districts to link and monitor all financial transactions including claims auditing accurately in a connected and reliable manner.

[REDACTED]
SallyAnn Shields, Superintendent

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 and employees and reviewed policies and Board minutes to gain an understanding of the District's process to prepare, audit, approve and pay claims.
- We used our professional judgment to select a sample of 50 claims totaling \$1.4 million from a population of 601 claims totaling \$5.4 million. We selected our sample to include claims for a variety of vendors, claims paid before and after the District hired an independent claims auditor in October 2021 and claims paid to District officials.
- We reviewed these claims to determine whether the claims were for an appropriate District purpose, adequately supported, properly approved, contained evidence that the goods or services were received and audited by the Board or appointed claims auditor prior to 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

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