



Corning City School District

Claims Auditing

2023M-105 | November 2023

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Report Highlights

Corning City School District

Audit Objective

Determine whether the Corning City School District (District) claims auditor properly audited and approved claims prior to payment.

Key Findings

The District's claims auditor did not properly audit and approve all claims prior to payment. We reviewed 100 claims totaling approximately \$19.5 million and determined that:

- The claims auditor, who is an employee of the Greater Southern Tier Board of Cooperative Educational Services (GST BOCES), inappropriately audited 43 claims totaling approximately \$16.1 million paid to GST BOCES. This compromised the claims auditor's objectivity and independence. The Board of Education (Board) should have audited these claims.
- The Treasurer paid 18 claims for health insurance reimbursements and credit card purchases totaling approximately \$1.7 million prior to audit.
- 49 travel-related credit card charges totaling \$28,555 did not include a conference request pre-approval form or other supporting documentation.

Key Recommendations

- Ensure claims are paid after audit and contain adequate supporting documentation such as invoices, receipts and conference approval forms.
- Ensure all claims for GST BOCES service charges are independently audited.

District officials generally agreed with our findings and indicated they plan to initiate corrective action.

Background

The District serves the Towns of Big Flats, Catlin and Southport in Chemung County; the Towns of Dix and Orange in Schuyler County; and the City of Corning and the Towns of Bradford, Campbell, Caton, Corning, Erwin, Hornby and Lindley in Steuben County.

The District is governed by an elected nine-member Board.

The Superintendent of Schools (Superintendent) 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 School Business Official oversees the District's business and accounting operations, and is assisted by a Treasurer and other accounting and clerical staff. The Board contracts with the GST BOCES central business office (CBO) to audit and approve claims. On July 1, 2021, the Board delegated its claims auditing powers and duties to a CBO employee through its contract.

Quick Facts

2022-23 Appropriations \$122.8 million

Claims Processed During Audit Period

Number of Claims 9,019

Dollar Amount of Claims \$184.1 million

Audit Period

July 1, 2021 – March 31, 2023

Claims Auditing

What is an Effective Claims Audit Process?

An effective claims audit process ensures that every district claim is independently, thoroughly and deliberately reviewed prior to payment. Generally, a school district board must audit all claims before they are paid¹ or 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.

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 and have adequate supporting documentation, and whether the district has received the goods or services described in each claim.

According to New York State Education Law Section 2526-3 (Education Law), 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 to maintain the independence of the claims audit function.

The Claims Auditor Did Not Properly Audit Claims

The Board adopted a Claims Auditor Policy (policy) to serve as guidance for the claims auditor to perform their duties. The policy states that the audit process shall ascertain that:

- The proposed payment is for a valid, legal and appropriate purpose,
- The voucher is properly itemized (supported),
- Goods or services were received, and
- The voucher is in proper form, mathematically correct and does not include charges previously claimed.

The policy also states that all claims for payment shall be presented to and approved by the claims auditor prior to payment, and the claims auditor should

...[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 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.

be aware of Board policies and compare claims against all other relevant Board policies, such as travel or tuition reimbursement, to ensure compliance with Board actions.

The claims auditor told us that she was not aware of the policy and did not refer to other relevant Board policies when auditing claims. Rather, she maintained a checklist of her claims auditing duties, which included items such as ensuring:

- Claims were for a legal and proper purpose,
- Purchase order (PO) date was before the invoice date,
- Signature of the purchasing agent was on the PO,
- Claims included evidence of receipt of goods or services, and
- Correct amounts were on the invoice (no tax paid, no duplicate payment, discounts taken, PO amount agreed to invoice).

We reviewed 57 claims² totaling approximately \$3.4 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); included evidence that the goods or services were received; were mathematically accurate; were for legitimate District purposes; complied with District policies and were properly audited and approved before being paid. We found exceptions with 18 claims totaling approximately \$1.7 million. Specifically,

- All eight health insurance reimbursement claims totaling over \$1.6 million were paid two or three days prior to audit. The claims included supporting documentation and were for legitimate purposes. The Treasurer told us that he routinely pays these bills by wire transfer prior to audit because the District's third-party administrator (TPA) pays the health insurance claims on behalf of the District and has a short deadline for which they must be reimbursed. As a result of our audit, the Treasurer communicated with the TPA and extended the time to submit the reimbursement for these claims from three to five business days after the TPA pays the health insurance claims. Because the Treasurer could have asked for this extension at any point, the claims auditor should have been allowed the opportunity to properly audit and approve these claims prior to payment.
- The Treasurer paid 10 of the 13 credit card claims totaling \$36,401 between one and 34 days prior to audit via online bank transfers. The Treasurer told us that he paid these claims prior to audit because the CBO staff did not always compile and audit the credit card claims in a timely manner.

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

Therefore, the Treasurer felt it was in the District's best interest to pay the bills early to avoid late fees. While we verified that the District did not incur late fees, it should have only paid these claims after audit. Sixteen other credit card claims in our audit period were paid by check after the claims auditor's approval.

- Forty-nine travel-related purchases totaling \$28,555, on the 10 credit card claims above, did not include required pre-approval forms or other supporting documentation.

The remaining 39 claims, totaling approximately \$1.7 million, were mathematically accurate, had adequate supporting documentation, complied with District policies, and were properly audited and approved before payment.

The claims auditor explained that she was not checking for travel pre-approval as required by the District's claims audit and travel policies because she was not provided with the relevant policies and was unfamiliar with the requirements. The School Business Official stated that the relevant policies were not provided to the claims auditor or the CBO because he assumed that the CBO would get them from the District's website. The claims auditor also explained it was an oversight that missing receipts for some claims did not result in the claim being denied.

When claims are paid prior to audit, or do not include proper approvals or supporting receipts, the District has an increased risk that it could make inaccurate or improper payments for goods and services.

The Board Did Not Audit GST BOCES Claims

The claims auditor inappropriately audited and approved all 43 GST BOCES claims totaling approximately \$16.1 million, instead of the Board. The School Business Official told us that he was not aware of the Education Law requiring the Board to audit all claims from GST BOCES or delegating the audit and approval of these claims to another independent party.

During our fieldwork, District officials implemented corrective action. Beginning with the April 25, 2023 GST BOCES billing, a District employee benefits technician, who is independent of the accounting and business functions, audits and approves the billing for payment.

When a BOCES directly provides claims auditing services to a school district using a BOCES employee, while also providing goods and other services to the same school district, the claims auditor is in the position of approving significant claims submitted by BOCES, their employer. Therefore, the claims auditor's objectivity and independence is compromised.

What Do We Recommend?

The claims auditor should:

1. Ensure claims contain adequate supporting documentation, such as receipts and appropriate pre-approval forms.

The Treasurer should:

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

The Board should:

3. Provide the claims auditor with all relevant policies and procedures to ensure they have appropriate guidance for auditing claims.
4. Continue to ensure that GST BOCES claims are independently audited by someone who is not a GST BOCES employee or involved in the District's accounting or purchasing functions.

Appendix A: Response From District Officials



Michelle Caulfield
Superintendent of Schools

October 27, 2023

Dina M. L. Thompson
Chief of Municipal Audits
State Office Building
44 Hawley Street, Suite 1702
Binghamton, NY 13901-4417

Dear Ms. Thompson,

Please accept this letter as the Corning City School District's official response to the draft audit report entitled Claims Auditing, 2023M-105, for the time period of July 1, 2021 – March 31, 2023. On behalf of the Board of Education and Administration, I would like to commend the audit team for their professionalism, thoroughness, communication, and in-depth review of our claims auditing policies and procedures.

District officials recognize how important the claims auditing process is and have carefully reviewed the draft report and met with the auditors assigned to the audit to discuss all findings and recommendations. We agree with the audit findings and support all of the audit recommendations. Prior to receipt of the draft audit report, we had already implemented corrective actions to two areas identified. We will continue to ensure that all claims are appropriate, audited, and approved before payment.

We appreciate this opportunity to respond to the findings and recommendations of this report. A comprehensive corrective action plan will be submitted to your office and the New York State Education Department no later than 90 days after the final report is released.

Respectfully,

Michelle A. Caulfield
Superintendent of Schools

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 GST BOCES officials and staff to gain an understanding of the claims audit process.
- We examined a random sample of 36 claims totaling approximately \$1.7 million, which we selected using a computerized spreadsheet function. We also used our professional judgment to select a sample of eight claims paid (by wire) to the District's TPA, totaling \$1.7 million (occurring in the two fiscal years of our scope for the months of September 2021, April 2022, October 2022 and February 2023 with no expectations of more or fewer exceptions) and all 13 credit card payments (paid by online banking) totaling approximately \$40,000 during the 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 also examined all 43 BOCES claims totaling \$16.1 million paid during our audit period to determine whether a CBO employee had audited them.

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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