

Pavilion Central School District

Claims Audit

2024M-108 | November 2024

Contents

Report Highlights 1

Claims Audit 2

 What Is a Proper Claims Audit? 2

 The Claims Auditor Did Not Perform Proper Claims Audits 3

 What Do We Recommend? 5

Appendix A – Response From District Officials 7

Appendix B – Audit Methodology and Standards 8

Appendix C – Resources and Services. 9

Report Highlights

Pavilion Central School District

Audit Objective

Determine whether the Pavilion Central School District (District) claims auditor properly audited claims prior to payment.

Key Findings

The claims auditor did not properly audit all claims prior to payment. As a result, there was an increased risk that improper or unsupported payments could have been made and may not have been detected and corrected and that District officials paid more for goods and services than necessary. Of the 324 claims we reviewed totaling approximately \$1.4 million, the claims auditor should not have approved 173 claims totaling approximately \$1.04 million for payment. We identified more than one concern with numerous claims.

- 152 claims totaling more than \$1 million did not have documentation to demonstrate that officials complied with the Board-adopted purchasing policy that required the goods and services to be procured through competitive processes.
- 134 claims totaling approximately \$444,000 lacked documentation demonstrating that the purchase was properly authorized by an appropriate department head and/or approved by the purchasing agent.
- 50 claims totaling \$88,000 lacked information to confirm the District was charged properly.
- 33 claim packets totaling approximately \$20,000 lacked information needed to support that the purchases were for a valid District purpose.

Recommendations

The audit report includes seven recommendations that, if implemented, will improve the effectiveness of the District's claims audit process.

District officials generally agreed with our findings and recommendations and indicated they will initiate corrective action.

Audit Period

July 1, 2022 – August 12, 2024

Background

The District serves the Towns of Bethany, Le Roy, Pavilion and Stafford in Genesee County, Caledonia, Leicester and York in Livingston County, and Covington and Middlebury in Wyoming County. The seven-member Board of Education (Board) is responsible for District's general management and control of financial affairs.

The Superintendent of Schools is the chief executive officer responsible for the District's day-to-day management.

The School Business Official (Business Official), who is responsible for the general oversight of all purchasing activities, also serves as the purchasing agent and is required to approve all purchases. The Board-appointed claims auditor is responsible for examining claims and ensuring that they are properly supported and meet purchasing policy requirements prior to approving them for payment.

Quick Facts	
July 1, 2022 – March 31, 2024	
Claims Processed	
Dollar Amount	\$14.8 million
Number of Claims	2,662
Claims Reviewed	
Dollar Amount	\$1.4 million
Number of Claims	324

Claims Audit

What Is a Proper Claims Audit?

A proper claims audit is a thorough and deliberate examination to determine that a claim is a legal obligation and a proper charge against a school district (district). A claim packet should contain enough detail and documentation so that the auditing body or official is supplied with sufficient information to make that determination. Generally, a school board (board) must audit all claims against a district before they are paid or appoint a claims auditor to assume the board's powers and duties to audit and approve claims.¹ If a board appoints a claims auditor, that individual must have the skills and training to effectively audit claims, including experience with purchasing, competitive bidding and processing 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 whether procurement requirements are followed. A claims auditor is also responsible for verifying that the district received the goods or services described, the claim had not already been paid and to ensure sufficient documentation is attached, including detailed receipts, invoices and receiving documentation. If any deficiencies are identified during the claims audit process, the claims should be held until these deficiencies are corrected.

A board and district officials should provide the claims auditor with sufficient training and written policies and procedures detailing the claims auditor's specific duties and responsibilities for reviewing claims and the documentation required to be included in a claims packet. A board should also require the claims auditor to communicate directly with the board, and to provide the board with at least a monthly report summarizing claims deficiencies and other issues or concerns. These reports are important tools that a board can use to help ensure that the claims auditor is properly auditing claims.

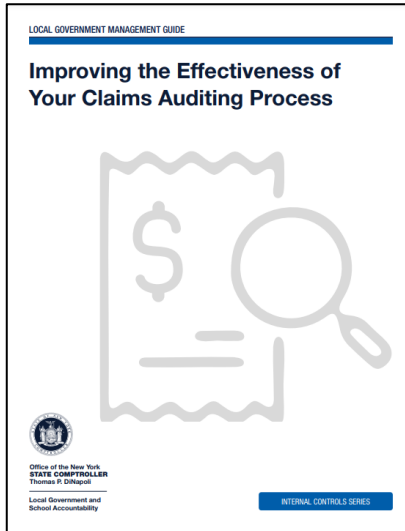
To assist local officials, the Office of the New York State Comptroller (OSC) provides various publications and training tools, including our Local Government Management Guide entitled *Improving the Effectiveness of Your Claims Auditing Process* and webinars through our Office's Academy for New York State's Local Officials (Figure 1).

¹ 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.

FIGURE 1

OSC Publication and Webinar

Local Government Management Guide – Improving the Effectiveness of Your Claims Auditing Process



Access this publication at:
<https://www.osc.ny.gov/files/local-government/publications/pdf/improving-the-effectiveness-of-claims-auditing-process.pdf>

Webinar: Improving the Effectiveness of Your Claims Auditing Process



This session will assist local officials in learning how to establish an effective and efficient claims processing system. A well-designed system ensures proper use of municipal resources, provides local officials with useful information and complies with all applicable laws and regulations.

Access this webinar at:
<https://www.osc.ny.gov/local-government/academy/webinars>

The Claims Auditor Did Not Perform Proper Claims Audits

We reviewed a sample² of 324 claims paid during the audit period, totaling approximately \$1.4 million, and determined that the claims auditor was not performing an adequate claims audit. Of the 324 claims reviewed, 173 claims totaling approximately \$1.04 million should not have been approved for payment by the claims auditor because the claim packets either did not contain sufficient documentation to allow for a proper audit or the claim contained one or more exception, as detailed below:

- 152 claim packets totaling approximately \$1.02 million did not include sufficient documentation to demonstrate that officials complied with the District's purchasing policy by obtaining the required number of written quotes, proposals or formal bids prior to making purchases. As a result, the claims auditor was unable to verify compliance with the District's purchasing guidelines prior to approving claims for payment.

² See Appendix B for more information on our sampling methodology.

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- 134 claim packets totaling approximately \$444,000 did not contain sufficient evidence or documentation, such as a signed purchase requisition, purchase order and/or claim form, for the claims auditor to verify that the purchases were properly authorized by an appropriate department head and approved by the purchasing agent prior to approving claims for payment.
 - 33 claim packets totaling approximately \$20,000 did not contain evidence, such as claim forms with sufficient item descriptions or conference attendance approval forms, to demonstrate that the goods or services purchased were for a valid and legal District purpose. We reviewed each of these purchases, spoke with District officials and obtained additional supporting documentation, and determined that the goods and services for all 33 claims were for a valid and legal District purpose.
 - 30 claim packets totaling approximately \$19,000 were not sufficiently itemized. For example, multiple invoices did not include the quantity of units purchased and/or the unit price.
 - 20 claim packets totaling approximately \$69,000 did not include sufficient supporting documentation to determine whether claims were mathematically correct. For example, multiple claim packets did not include payment terms to ensure proper calculations, such as the agreement between the District and the Genesee County Sheriff's Department for the school resource officer which would include the approved rate of pay for the officer. We obtained additional documentation and recalculated each of these claim packets and determined that they were mathematically accurate.

Without sufficiently itemized and supported documentation, officials and the claims auditor could not verify and ensure that the District was being charged properly.

The claims auditor told us that her claims audit consists of ensuring that the name, address and amount of the check match the same information on the vendor invoice. Additionally, she ensures that the amount invoiced matches the amount approved on the purchase order, and that the vendor name listed on the purchase order matches the check payee. However, her process did not include determining whether claims were:

- For a valid and legal purpose,
- Properly authorized and approved,
- Mathematically correct, or
- Sufficiently itemized.

Also, her process did not include verifying that:

- Procurement requirements were followed,
- Goods or services described were received,
- A claim had not already been paid, or
- Sufficient documentation was attached, such as detailed receipts, invoices and receiving documentation.

The claims auditor told us that she did not realize that her claims audit process was not adequate.

The Board did not ensure the claims auditor was provided with sufficient training. In addition, the Board and District officials did not create and adopt written policies and procedures detailing the claims auditor's specific duties and responsibilities for reviewing claims and the documentation required to be included in a claim packet. The Board members we spoke with told us that they did not know that they should have adopted written policies and procedures detailing the claims auditor's specific job duties and responsibilities and what documentation should have been included in a claim packet. These same Board members also told us that they were not familiar with OSC's publications, including the one listed in Figure 1, that would have assisted them in learning what policies and procedures should have been adopted. Furthermore, the claims auditor did not communicate with the Board or provide any reports and the Board did not request that she do so. As a result, the Board was not able to properly oversee the claims auditor and ensure claims were properly audited.

The Business Official told us that the District did not have a written claims audit policy or a job description detailing what a proper claims audit consists of because it was simply overlooked. He added that when the claims auditor was hired, she was already performing the same function at two other school districts and he assumed that she had the necessary skills and experience to effectively audit claims. The claims auditor confirmed that she did not request a detailed job description, attend training or attempt to reference any OSC publications to learn what a proper claims audit consists of because she did not know she needed to.

Because the Board and District officials did not provide the claims auditor with sufficient direction, guidance or adequate training, the claims auditor was ill-equipped to perform an adequate audit of claims. As a result, the claims auditor approved incomplete or unsubstantiated claims and did not verify vendor pricing or ensure compliance with Board-adopted policies. This increased the risk that improper or unsupported payments could have been made and not been detected or corrected.

What Do We Recommend?

The Board should:

1. Provide sufficient oversight of the claims audit process, including communicating directly with and reviewing reports from the claims auditor and investigating any deficiencies identified.
2. Adopt a written claims audit policy which clearly details the claims auditor's specific duties and responsibilities and the documentation that should be included in a claim packet.

The Board and District officials should:

3. Provide a detailed job description and adequate training opportunities to the claims auditor to ensure she is familiar with her roles and expectations and can perform these duties properly.

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 to demonstrate compliance with District policies and that goods and/or services were received prior to approving the claim for payment.
6. Communicate directly with the Board and provide monthly reports identifying claims deficiencies as required by District policy.
7. Request and attend applicable training associated with her claims auditing responsibilities.

Appendix A: Response From District Officials



Pavilion Central School District

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October 15, 2024

By U.S. Mail and E-mail

Chief Examiner
Division of Local Government and School Accountability
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Buffalo, NY 14203-2510

Muni-Buffalo@osc.ny.gov

Dear Chief Examiner,

This letter serves as the initial response from the Pavilion Central School District (the "District") to the draft Claims Audit Report (the "report") for the period of July 1, 2022, through August 12, 2024, which was provided to the District on October 9, 2024.

We have reviewed the report, and it is our assessment that the findings and recommendations outlined within appear to be both accurate and appropriate. The District is committed to addressing the issues identified in the report, and once the final audit report is issued, we will prepare and submit a Corrective Action Plan (CAP) within 90 days. This plan will be filed with the Office of the State Comptroller and the New York State Education Department and will be made available for public inspection.

Audit findings:

- Claims audit process deficiencies
- Lack of documentation for competitive bidding
- Authorization and approval concerns
- Verification and itemization issues

The Board of Education and Administration value opportunities to refine and strengthen the operational practices of our District, particularly with respect to financial oversight. We are taking these findings seriously and will implement measures to ensure that our claims audit process is robust, thorough, and aligned with state requirements. Our commitment remains steadfast in protecting the fiscal integrity of the District while maintaining the high standards of service that our community has come to expect. We are dedicated to balancing this commitment with the responsibility of providing a cost-effective yet high-quality education for our students.

The District wishes to express our appreciation for the professional and respectful manner in which your team conducted the audit. We found the process to be both thorough and collaborative, and we look forward to implementing the improvements suggested in your report.

Sincerely,

Mary K. Hoffman
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. We obtained an understanding of internal controls that we deemed significant within the context of the audit objective and assessed those controls. Information related to the scope of our work on internal controls, as well as the work performed in our audit procedures to achieve the audit objective and obtain valid audit evidence, included the following:

- We interviewed District officials, including Board members, the claims auditor and other employees, and we reviewed policies, regulations, procedures and Board meeting minutes to gain an understanding of the District's process to prepare, approve, audit and pay claims.
- Using District disbursement reports, we identified a population of 2,662 claims totaling \$14.8 million processed between July 1, 2022 and March 31, 2024. We used our professional judgment to select a sample of 324 claims totaling \$1.4 million from this population for review. We selected our sample to include the claims paid during the months of September 2022 and March 2023 which represented the month in each year of the audit period that had the greatest number of transactions.
- We reviewed the claims selected to determine whether the claims were for an appropriate District purpose; properly authorized and approved; adequately supported; mathematically correct; sufficiently itemized; had evidence that the goods or services were received; and had evidence of compliance with Board-adopted policies.

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.ny.gov/files/local-government/pdf/regional-directory.pdf

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

www.osc.ny.gov/local-government/publications

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

www.osc.ny.gov/local-government/fiscal-monitoring

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

www.osc.ny.gov/local-government/publications

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

www.osc.ny.gov/local-government/resources/planning-resources

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

www.osc.ny.gov/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.ny.gov/local-government/required-reporting

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

www.osc.ny.gov/local-government/publications

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

www.osc.ny.gov/local-government/academy

Contact

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