

Remsen Central School District

Claims Audit Process

JULY 2019



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

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Report Highlights

Remsen Central School District

Audit Objective

Determine whether the claims auditor audited and approved claims before payment.

Key Findings

The claims auditor did not:

- Receive claims paid by check disbursement for audit and approval until after payment and did not receive claims paid electronically for audit and approval.
- Audit and approve 116 claims we reviewed totaling \$1.9 million (19 percent) until after the claims were paid, including five claims for travel reimbursements totaling \$1,260 that were not submitted for payment within District policy timeframes.
- Audit and approve 20 electronic payments for credit card charges totaling \$11,600 and nine postage claims totaling \$11,442.

Key Recommendations

- Ensure all claims against the District, other than those allowed under law, are presented to the claims auditor for audit and approval before payment.
- Ensure each claim is accurate, properly supported, for a valid purpose and in compliance with required statutes and policies.

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

Background

The Remsen Central School District (District) serves the Towns of Ohio and Russia in Herkimer County, and the Towns of Boonville, Forestport, Remsen, Steuben and Trenton in Oneida County.

The five-member Board of Education (Board) is responsible for the general management and control of financial and educational affairs. The Superintendent of Schools is the chief executive officer, and, along with the Assistant Superintendent for Business (Business Administrator), is responsible for day-to-day management under the Board's direction. The Business Administrator is also responsible for authorizing the disbursement of funds.

The Board delegated its claims auditing powers and duties to a claims auditor.

Quick Facts

Employees	97
Enrollment	411
2018-19 General Fund Appropriations	\$12.2 million
Claims Paid for the Audit Period	\$9.8 million

Audit Period

July 1, 2017 – December 31, 2018

Claims Audit Process

What Is an Effective Claims Audit Process?

New York State Education Law requires a board to audit all claims¹ before they are paid² or appoint a claims auditor³ to assume the board's powers and duties to examine and approve or disapprove claims. An effective claims audit process ensures that every claim against the district is subjected to an independent, thorough and deliberate review and that each claim contains adequate supporting documentation to determine whether the amounts claimed comply with statutory requirements and district policies and represent actual and necessary expenditures.

The claims auditor should audit every claim against the district before payment to determine whether the claim is properly itemized and supported and whether the district received the goods or services described. Establishing and adhering to effective claims auditing policies and procedures decreases the risk that errors or irregularities in processing and paying claims could occur and not be detected in a timely manner.

The Claims Auditor Did Not Audit Claims Before Payment

District officials need to improve their claims audit process to ensure that the claims auditor properly audits and approves all claims before payment. The purchasing agent provides the claims and supporting documentation to the Business Administrator for review and approval before sending the claims to an Oneida-Herkimer-Madison Board of Cooperative Education Services' account clerk.

The account clerk processes the claims and returns a warrant and the related check payments to the purchasing agent who compares the checks to the claims and warrant before mailing the checks. However, the purchasing agent provides the warrant, claims and check stubs to the claims auditor for review and approval after the checks have already been mailed.⁴

The claims auditor reviews each claim to determine whether it is for a valid purpose, includes required signatures of approval, is properly supported and the vendor name agrees to the check stub and warrant. After completing her review, she initials each claim and the corresponding warrant certifying the claims to be paid, even though the payments have already been disbursed and follows

1 Except compensation of an officer or employee and debt service

2 New York State Education Law (Education Law), Section 1724 allows a board, by resolution, to 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.

3 Education Law, Section 1709

4 A warrant is prepared approximately every two weeks.

up with the purchasing agent and Business Administrator on any discrepancies found. The claims auditor prepares a claims auditor report that is provided to the Board quarterly, which indicates the number of claims reviewed and any issues identified.

The claims auditor told us that she did not know when the disbursement checks were sent to vendors. Although the claims are reviewed by the purchasing agent and the Business Administrator, neither official may perform the claims audit function because they are not independent of the purchasing process or overall business management.⁵

We reviewed 116 claims paid by check totaling \$1.9 million (19 percent) during our audit period.⁶ Although all these claims were generally supported by adequate invoices and documentation, included evidence that the goods or services were received, and were for legitimate purposes in accordance with District policies, none were audited by the claims auditor before payment.

The claims auditor certified all of the claims for payment after the checks had already been issued, and in some instances, after the checks cleared the bank. We also found that five of these claims totaling \$1,260 for employee travel reimbursements were submitted for payment five to twelve months after the travel occurred, even though the District reimbursement policy requires that travel claims be submitted within ninety calendar days after the expenditures were incurred, or by the last working day of the fiscal year, whichever is earlier.

Electronic Payments – Claims or supporting documentation for credit card charges and postage fees paid electronically were not provided to the claims auditor for audit and approval. The Board-adopted credit card policy provides for the issuance of a credit card to the Superintendent and the Business Administrator. In certain limited circumstances, the Superintendent may designate other employees to use the credit card to assist with their job responsibilities.

When purchases are made using the cards, the Business Administrator reviews the monthly credit card statement, attaches receipts and supporting documentation and electronically pays the amount due each month. He also replenishes the available balance on the postage meter a few times a year with an electronic payment. The account clerk records the credit card and postage disbursements in the accounting system by journal entry and the Business Administrator retains all related vouchers and supporting documentation for these payments.

⁵ Education Law, Section 1709

⁶ See Appendix B for information on our sampling methodology.

We identified 20 electronic disbursements to pay credit card claims totaling \$11,600 during our audit period. We reviewed all charges shown on the credit card statements and found that all these disbursements were for proper purposes. Except for minor instances, which we discussed with officials, these disbursements were properly supported. However, none of the credit card payment claims were audited and approved by the claims auditor or included on any warrant.

The Business Administrator told us that the credit cards are controlled because the credit card policy authorizes issuance of cards only to himself and the Superintendent, and that when one of the cards is given to another employee, they are aware of what the card will be used for.

Although there are limited credit card users, the Business Administrator still has the ability to make and approve card purchases and pay the related charges without any oversight, which increases the risk for inappropriate transactions to occur and not be detected.

In addition, the Business Administrator paid nine electronic payments for postage totaling \$11,442 during our audit period. Although these claims were adequately supported and for a proper purpose, they were not audited and approved by the claims auditor or included on any warrants.

While we did not find any inappropriate payments, when claims are paid before or without claims auditor approval, there is an increased risk that inaccurate or improper payments could occur.

What Do We Recommend?

The Business Administrator should:

1. Ensure all claims, other than those allowed under Law, are presented to the claims auditor for audit and approval before payment.

The claims auditor should:

2. Conduct a thorough and deliberate audit of each claim before authorizing payment to ensure it is accurate, properly supported, for valid purposes and in compliance with required statutes and policies.

Appendix A: Response From District Officials

REBECCA DUNCKEL-KING
Superintendent of Schools

LOU D'AMBRO
Assistant Superintendent for Business

THOMAS WALDRON
Transportation & Facilities

Remsen Central School District

9733 Main St., P.O. Box 406
Remsen, New York 13438
315-205-4300

KRISTY MCGRATH
Ir./Sr. High School Principal

GARY WINGHART JR.
Elementary Principal

FAY HARPER
CSE Chairperson/School Psychologist

June 27, 2019

Unit Name: Remsen CSD

Audit Report Title: Claims Audit Process

Audit Report Number: 2019M-86

On behalf of the Remsen Central School District, I would like to thank the Comptroller's Auditors who conducted our Claims Audit Process during the 2018 – 2019 school year. The district administration received the report and met with your representatives to review the draft audit report.

For each recommendation included in the audit report, the following is our corrective actions taken or proposed. For recommendations where corrective action has not been taken or proposed, we have included the following explanations.

Audit Recommendation 1

The Business Administrator should ensure all claims, other than those allowed under Law, are presented to the claims auditor for audit and approval before payment.

Implementation Plan of Actions:

The District has implemented this change so that all claims are reviewed by the internal claims auditor..

Implementation Date:

April 1, 2019

Person Responsible for Implementation:

Assistant Superintendent for Business

Internal Claims Auditor

Audit Recommendation 2

The claims auditor should conduct a thorough and deliberate audit of each claim before authorizing payment to ensure it is accurate, properly supported for valid purposes and in compliance with required statutes and policies.

Board of Education

Mary Lou Allen, President

James Reilly, Vice-President

Sonya Murray

Brian Parent

Mark Williams

Implementation Plan of Actions:

The District is working on expediting the internal claims auditor process so that every claim is reviewed prior to payment is mailed.

The internal claims auditor will ensure that every claim against the district is subjected to an independent, thorough and deliberate review and that each claim contains adequate supporting documentation to determine whether the amounts claimed comply with statutory requirements and district policies and represent actual and necessary expenditures.

Implementation Date:

July 1, 2019

Person Responsible for Implementation:

Internal Claims Auditor

Purchasing Agent

Signed: 

Rebecca Dunckel-King, 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 minutes and interviewing officials to gain an understanding of the claims audit process.
- We randomly selected 75 claims totaling \$1.8 million to determine whether the claims were for proper purposes, adequately supported, contained evidence that the goods or services were actually received, were in compliance with Board-adopted policies and were audited and approved before payment.
- We judgmentally selected an additional sample of 41 claims totaling \$81,725 paid during the audit period and reviewed them for the same attributes as our random sample. We selected claims that posed a higher risk for inappropriate expenditures, such as payments to Board members, other District officials, unrecognized vendors and large dollar amounts.
- We reviewed the bank statements for the four main operating funds (general, school lunch, special aid, and capital) to identify any payments being made outside of the check payment process. We identified 20 electronic credit card payments totaling \$11,600 and nine electronic postage payments totaling \$11,442. We reviewed these payments for the same attributes as our random sample.

We conducted this performance audit in accordance with GAGAS (generally accepted government auditing standards). 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 relevant population size and the sample selected for examination.

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 2116-1(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 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. We encourage the Board to make the CAP available for public review in the District Clerk's office.

Appendix C: Resources and Services

Regional Office Directory

www.osc.state.ny.us/localgov/regional_directory.pdf

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

www.osc.state.ny.us/localgov/costsavings/index.htm

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

www.osc.state.ny.us/localgov/fiscalmonitoring/index.htm

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

www.osc.state.ny.us/localgov/pubs/listacctg.htm#lmgm

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

www.osc.state.ny.us/localgov/planbudget/index.htm

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

www.osc.state.ny.us/localgov/pubs/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/localgov/finreporting/index.htm

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

www.osc.state.ny.us/localgov/researchpubs/index.htm

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

www.osc.state.ny.us/localgov/academy/index.htm

Contact

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www.osc.state.ny.us/localgov/index.htm

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