



Glens Falls City School District Internal Controls Over Claims Processing

Report of Examination

Period Covered:

July 1, 2006 — September 30, 2007

2008M-99



Thomas P. DiNapoli

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State of New York Office of the State Comptroller

Division of Local Government and School Accountability

August 2008

Dear School District Officials:

A top priority of the Office of the State Comptroller is to help school district officials manage their districts efficiently and effectively and, by so doing, provide accountability for tax dollars spent to support district operations. The Comptroller oversees the fiscal affairs of districts statewide, as well as districts' compliance with relevant statutes and observance of good business practices. This fiscal oversight is accomplished, in part, through our audits, which identify opportunities for improving district operations and Board of Education governance. Audits also can identify strategies to reduce district costs and to strengthen controls intended to safeguard district assets.

Following is a report of our audit of the Glens Falls City School District, entitled Internal Controls Over Claims Processing. This audit was conducted pursuant to Article V, Section 1 of the State Constitution, and the State Comptroller's authority as set forth in Article 3 of the General Municipal Law.

This audit's results and recommendations are resources for district officials to use in effectively managing operations and in meeting the expectations of their constituents. If you have questions about this report, please feel free to contact the local regional office for your county, as listed at the end of this report.

Respectfully submitted,

*Office of the State Comptroller
Division of Local Government
and School Accountability*

Introduction

Background

The Glens Falls City School District (District) is located in the City of Glens Falls and Town of Queensbury, Warren County. The District is governed by the Board of Education (Board) which comprises nine elected members. The Board is responsible for the general management and control of the District's financial and educational affairs. The Superintendent of Schools is the chief executive officer of the District and is responsible, along with other administrative staff, for the day-to-day management of the District under the direction of the Board. The Director of Business Affairs plays a key role in the daily administration of the Business Office and has five full time employees. Along with his regular duties the Board has appointed him as the purchasing agent.

There are six schools¹ in operation within the District, with approximately 2,500 students and 440 employees. The District's general fund budget for the 2007-08 fiscal year is \$35.6 million, which is funded primarily with State aid, real property taxes, and tuition from other districts.

Objective

The objective of our audit was to assess internal controls over claims processing. Our audit addressed the following related question:

- Has the District established appropriate internal controls over claims processing and claims auditing?

Scope and Methodology

Our overall goal was to assess the adequacy of the internal controls put in place by officials to safeguard District assets. To accomplish this, we performed an initial assessment of the internal controls so that we could design our audit to focus on those areas most at risk. Our initial assessment included evaluations of the following areas: financial oversight, cash receipts and disbursements, purchasing, payroll and personal services, and information technology. Based on that evaluation, we determined that controls appeared to be adequate and limited risk existed in most of the financial areas we reviewed. We did determine that risk existed in the claims processing area and, therefore, we examined internal controls over claims processing for the period July 1, 2006 to September 30, 2007.

We conducted our audit in accordance with generally accepted government auditing standards (GAGAS). More information on such standards and the methodology used in performing this audit are included in Appendix B of this report.

¹ Four elementary schools, a middle school and a high school

**Comments of District
Officials and Corrective
Action**

The results of our audit and recommendations have been discussed with District officials and their comments, which appear in Appendix A, have been considered in preparing this report. District officials generally agreed with our recommendations and indicated they planned to initiate corrective action.

The Board has the responsibility to initiate corrective action. Pursuant to Section 35 of the General Municipal Law, Section 2116-a (3)(c) of the Education Law and Section 170.12 of the Regulations of the Commissioner of Education, the Board must approve a corrective action plan that addresses the findings in this report, forward the plan to our office within 90 days, forward a copy of the plan to the Commissioner of Education, and make the plan available for public review in the District Clerk's office. For guidance in preparing the plan of action, the Board should refer to applicable sections in the publication issued by the Office of the State Comptroller entitled *Local Government Management Guide*.

Claims Processing

Internal controls over claims processing should be designed to ensure that all claims contain enough supporting documentation to determine that purchases are made in accordance with District policies, and that the amounts claimed represent actual and necessary expenses. Education Law requires the Board to audit and approve all claims against District funds or to appoint a claims auditor for this purpose. For all but a few statutory exceptions, the Treasurer should not pay claims until after receiving a warrant (summary report) of claims that have been audited and approved for payment. This process helps to ensure that taxpayer dollars are expended in the most efficient manner and reduce the risk that errors or irregularities could occur and not be detected and corrected.

The Board has not appointed a claims auditor, but has instead retained the authority to audit and approve claims for payment. However, District officials stated the Board does not look at all claims. Instead, the Board reviews only certain claims, on an exception basis, while reviewing the warrants. The Board relies on the “accounts payable review clerk” to select a sample of claims from each warrant for a “spot check” review. However, the clerk informed us that she only examines approximately one third of the claims, paying particular attention to large amounts, claims submitted for reimbursement and claims for credit card purchases.

Due to this limited review process, not every claim is properly examined. We judgmentally selected 55 claims totaling \$1,134,894 to determine if they represented appropriate District charges, met legal requirements and were approved prior to payment. We tested each claim to determine if it was in proper form, mathematically correct, and contained proper original supporting documentation including a purchase order, receiving slips, department approval, invoices, itemized receipts and evidence that competitive bids or quotations were obtained as required.

None of the claims were audited by the Board. In addition, 34 of the claims were paid prior to the Board’s approval of the warrant, and only five of those were of the type permitted by statute to be paid prior to audit. These claims ranged from \$600 for summer school supplies to \$595,000 for architect services on a capital project. We also noted instances where documentation was lacking. For example:

- Twenty-three of the 46 claims that required a purchase order did not have one.

- Three claims had confirming purchase orders that were dated after the purchases were made.

The audit of claims should not be a casual review. Although our testing did not disclose any inappropriate expenses, the review of warrants and reliance on a “spot check” review of claims increases the risk that the Board could approve payments that do not represent actual, reasonable, and necessary obligations incurred by authorized District officials.

Recommendations

1. The Board should review all claims to ensure that proper original documentation such as purchase orders, receiving slips, invoices and quotes are attached and that the purchases are in conformance with policies and procedures.
2. The Board should ensure that all claims are audited prior to payment unless a statutory exemption applies.

APPENDIX A

RESPONSE FROM DISTRICT OFFICIALS

The District officials' response to this audit can be found on the following pages.

GLENS FALLS CITY SCHOOL DISTRICT

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Thomas F. McGowan
Superintendent

Helen Laroche
Assistant Superintendent
For Instruction

Stephen R. Meier
Director of Business

Office of the State Comptroller
Division of Local Government and School Accountability

Dear Division of Local Government and School Accountability;

In the Report of Examination regarding the internal controls over claims processing, the following recommendations were made:

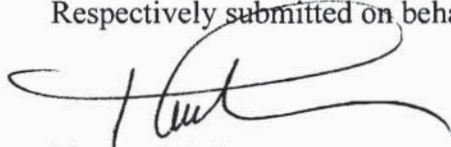
1. The Board of Education should review all claims to ensure that proper documentation such as purchase orders, receiving slips, invoices and quotes are attached and that the purchases are in conformance with policies and procedures.
2. The Board of Education should ensure that all claims are audited prior to payment unless a statutory exemption applies.

It has been the practice of the Board of Education to rely on the staff of the Business Department and the independent Accounts Payable Review Clerk to ensure that all claims presented for payment represent actual and necessary expenditures and contain supporting documentation to determine compliance with District policies. The Accounts Payable Clerk gathers the necessary documentation before processing claims. The Accounts Payable Review Clerk reviews claims based upon a predetermined selection process including payments to District Staff, credit card payments, cellular phone billings and amounts that exceed a certain dollar amount in addition to a random selection of the remaining claims. All claims are reviewed by the Director of Business to ensure that all claims presented for payment are actual and necessary expenditures of the School District. All the above reviews are completed in accordance with District's policies and any exceptions are reported to the Board of Education.

If payments on certain claims are not made according to contractual terms, the vendors will assess additional charges and interest on the outstanding amounts. These include items such as credit card payments, cellular phone billings and debt service payments. The Board of Education meets monthly on the second Monday of the month August through June. The payment due dates and the meeting schedule do not always coincide to allow invoices to be completely reviewed before payment. It has been the practice of the Board of Education to allow payment of these invoices to prevent the additional expenses to be assessed. These invoices are highlighted when presented to the Board of Educations at their monthly meetings.

At the July 2008 Organizational Meeting, the Board of Education will appoint an Internal Claims Auditor. The Internal Claims Auditor will review all claims beginning with the August warrant to ensure that all claims are audited and that claims contain proper documentation.

Respectively submitted on behalf of the Board of Education,

A handwritten signature in black ink, appearing to read 'Tom McGowan', with a large, sweeping flourish extending to the right.

Thomas McGowan
Superintendent of Schools

APPENDIX B

AUDIT METHODOLOGY AND STANDARDS

Our overall goal was to assess the adequacy of the internal controls put in place by officials to safeguard District assets. To accomplish this, we performed an initial assessment of the internal controls so that we could design our audit to focus on those areas most at risk. Our initial assessment included evaluations of the following areas: financial oversight, cash receipts and disbursements, purchasing, payroll and personal services, and information technology.

During the initial assessment, we interviewed appropriate District officials, performed limited tests of transactions and reviewed pertinent documents, such as District policies and procedures manuals, Board minutes, and financial records and reports. In addition, we obtained information directly from the computerized financial databases and then analyzed it electronically using computer-assisted techniques. This approach provided us with additional information about the District's financial transactions as recorded in its databases. Further, we reviewed the District's internal controls and procedures over the computerized financial databases to help ensure that the information produced by such systems was reliable.

After reviewing the information gathered during our initial assessment, we determined where weaknesses existed, and evaluated those weaknesses for the risk of potential fraud, theft and/or professional misconduct. Based on that evaluation we determined that controls appeared to be adequate and limited risk existed in most of the financial areas we reviewed. We then decided upon the reported objective and scope by selecting for audit those areas most at risk. We selected internal controls over claims processing for further audit testing.

We focused on the approval of purchases, the approval of payment for goods and services, and on the adherence to policies, procedures, pertinent laws and regulations. We interviewed District officials to gain an understanding of the claims audit process and claims review process. We examined the following records to determine the effectiveness of internal controls and identify any associated effect of the deficiencies found:

- Purchase requisition forms
- Warrants
- Purchase orders
- Claims packages
- Procurement policy
- Minutes of the proceedings of the Board

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.

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AND SCHOOL ACCOUNTABILITY

Steven J. Hancox, Deputy Comptroller
John C. Traylor, Assistant Comptroller

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