



# Gloversville Enlarged School District

## Internal Controls Over Claims Processing

Report of Examination

Period Covered:

July 1, 2006 — September 30, 2007

2008M-6



Thomas P. DiNapoli

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# State of New York Office of the State Comptroller

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## **Division of Local Government and School Accountability**

March 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 Gloversville Enlarged 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 Gloversville Enlarged School District (District) is located in the City of Gloversville and the Towns of Johnstown, Bleecker, Caroga, and Mayfield in Fulton 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 (Superintendent) 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 Business Manager plays a key role in the daily administration of the Business Office and has five full-time employees under his direction. The Board has appointed the Business Manager to serve as the District's purchasing agent, in addition to his regular job duties. In lieu of appointing an internal claims auditor, the Board has retained its authority to review all claims presented for payment.

There are seven schools in operation within the District, with approximately 3,400 students and 600 employees. The District's budgeted expenditures for the 2006-07 fiscal year were \$41.8 million, which were funded primarily with State aid, real property taxes, and grants.

## Objective

The objective of our audit was to determine whether internal controls over the claims processing function are appropriately designed and operating effectively to adequately safeguard District assets. Our audit addressed the following related question:

- Are claims adequately supported by invoices, receipts, purchase authorizations, evidence of receipt of goods or services, and other supporting documentation to ensure the claims represent legitimate charges against the District?

## 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, information technology, and payroll and personnel services. 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 covering 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.

**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 have initiated, or 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

Effective internal controls over claims processing should be designed to ensure that every claim contains enough supporting documentation to determine that the purchase was made in accordance with District policies, and that the amounts claimed represent actual and necessary District expenses. This process helps ensure that the District expends taxpayer dollars in the most efficient manner. When internal controls are not designed appropriately or operating effectively, it increases the risk that errors and irregularities in the processing and payment of claims could occur and not be detected and corrected in a timely manner.

Before the District pays a vendor for goods or services provided to the District, or reimburses a District employee or official for expenses incurred on behalf of the District, an adequately documented and supported claim submitted by the vendor, employee or official should be audited and approved for payment by the Board.<sup>1</sup> However, the Board members we interviewed stated that they did not look at every claim; instead, they would only scan the abstracts and select certain claims for review.<sup>2</sup> For example, the Board might review a large claim or a claim being made by an employee or official. During this process, all claim packets were present so that the Board could review any claim in question. Since Board members do not review each claim, they are not able to ensure that each claim is supported by adequate documentation (such as purchase orders, receiving slips, departmental approval, or invoices) prior to authorizing payment. Since the District's procedures for auditing claims are not adequate, there is a heightened risk that the District could make inappropriate payments to vendors or employees.

Due to the internal control weakness noted above, we judgmentally selected and examined 136 claims, aggregating \$528,129, to determine whether the claims were properly approved by the Board after ensuring the claims were supported by adequate supporting documentation and the claims represented appropriate District charges. We noted numerous exceptions, including the following:

<sup>1</sup> If the Board chooses, it may adopt a resolution to appoint an internal claims auditor to assume the powers and duties of the Board with respect to auditing claims.

<sup>2</sup> Abstracts are a listing of claims that have been submitted to the District by vendors, employees and officials. The listing is limited to general information such as the name of the claimant, the amount of the claim, and the appropriation code the claim will be charged against.

- Eleven of the claims we examined were related to 60 credit card purchases. Although the District's policy requires a purchase order for all credit card purchases, none of these 60 purchases was supported by a purchase order. We also found that 30 of these purchases, totaling \$7,192, lacked sufficient documentation, such as detailed receipts for travel expenses incurred, meals purchased and hotel receipts for conferences.
- An additional 21 purchases, totaling \$24,612, did not have supporting purchase orders. For example, the District paid a vendor \$2,901 for janitorial supplies. The associated claim packet contained the invoices, but no purchase order.
- Another 29 claim packets, totaling \$28,679, contained purchase orders that were prepared after the District had already received the goods or services. For example, in March 2007, the District paid \$3,218 to a vendor for cleaning and maintenance supplies. The vendor's invoices were dated between February 2, 2007 and February 21, 2007, but the related purchase order was dated March 13, 2007.

Although our testing did not disclose the payment of any inappropriate claims, the lack of a thorough audit of each claim increases the risk that inappropriate payments could occur. Furthermore, the failure of District personnel to consistently obtain approved purchase orders prior to ordering goods and services limits management's ability to properly plan and coordinate the procurement of goods and services, to exercise timely and effective budgetary control and to prevent unauthorized purchases. Circumventing the purchase order process could also increase the risk that the District will spend more than it should for goods and services.

## Recommendations

1. Prior to approving the payment of the claim, the Board should review each claim to ensure that proper original documentation (such as purchase orders, receiving slips, and invoices) is attached, and that the purchase complies with District policies and procedures.
2. The Board should ensure District management monitors credit card usage to ensure compliance with the District's credit card policy.
3. The Board should ensure purchases are made only after purchase orders have been approved or some other form of approval (e.g. Board resolution) has been obtained.

## **APPENDIX A**

### **RESPONSE FROM DISTRICT OFFICIALS**

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

GLOVERSVILLE  
ENLARGED SCHOOL DISTRICT

||||| P.O. Box 593  
Gloversville, New York 12078-0005  
Phone: (518) 775-5790 Fax: (518) 725-87

March 1, 2008

Office of the State Comptroller  
Glens Falls Regional Office  
One Broad Street Plaza  
Glens Falls, NY 12801

Office of the State Comptroller:

We have the following response to your Report of Examination (2008M-6) for the period of July 1, 2006 through September 30, 2007.

**CLAIMS PROCESSING**

Your claims testing revealed that although there was no instance of payments permitted for any inappropriate claims, a more thorough audit would enhance our current procedures and minimize the risk that an inappropriate payment could occur. The District agrees with this assessment of potential risk and has included in the 2008-09 budget, a part-time internal claims auditor to monitor our claims procedures at an approximate cost of \$3,000.

The District will also be reviewing its current purchasing policies as they relate to purchase orders to further enhance our system of internal controls.

The District appreciates your independent review of our claims processing systems and recommendations.

Sincerely,



Robert DeLilli  
Superintendent of Schools  
Gloversville Enlarged School District

## 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, information technology, and payroll and personal services.

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 objectives and scope by selecting for audit those areas most at risk. We selected claims processing for further audit testing.

In order to review the District's policies and procedures related to the processing of claims, we focused our attention on the approval of payments for various types of goods and services acquired by the District. We also focused on adherence to District policies and procedures, as well as pertinent laws and regulations related to claims processing. We examined the following records covering the period of July 1, 2006 to September 30, 2007 to determine the effectiveness of internal controls pertaining to the claim processing function and to identify any associated effect of deficiencies found in these controls:

- Purchase Requisition Forms
- Warrants
- Purchase Orders
- Claim Packages
- Bid Files (including Requests for Proposals and supporting documentation)
- Procurement Policy
- Minutes of the Proceedings of the Board

We conducted our 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 objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

## APPENDIX C

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Steven J. Hancox, Deputy Comptroller  
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