



Glens Falls City School District Internal Controls Over Claims Processing

Report of Examination

Period Covered:

July 1, 2010 — September 20, 2011

2011M-273



Thomas P. DiNapoli

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State of New York Office of the State Comptroller

Division of Local Government and School Accountability

March 2012

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 the Town of Queensbury in 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 (Superintendent) is the District's chief executive officer 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.

There are five schools¹ in operation within the District, with approximately 2,230 students and 440 full-time employees. At the end of the 2010 -11 school year, the District made the decision to close one of its four elementary schools. The District's budgeted expenditures for the 2011-12 fiscal year were approximately \$38.5 million, which are funded primarily with State aid, real property taxes, and grants.

Objective

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

- Are internal controls over claims processing appropriately designed and operating effectively to adequately safeguard District assets?

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 personal 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 July 1, 2010 to September 20, 2011.

¹ There are three elementary schools, a middle school and a high school for the 2011-12 school year.

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 is 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 recommendation 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, 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, with a copy forwarded to 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 Board should make the CAP available for public review in the District Clerk's office.

Claims Processing

An effective system for claims processing ensures that every claim against the District contains enough supporting documentation to determine that purchases comply with statutory requirements and District policies, and that the amounts claimed represent actual and necessary expenses. Conducting a proper audit of claims prior to payment is an integral part of internal controls over the District's payment of claims. Education Law requires the Board to audit all claims before they are paid, or to appoint a claims auditor to assume the Board's powers and duties to examine and approve or disapprove claims. It is important for the claims auditor to determine whether the claims are properly itemized and supported, and whether the District has actually received the goods and/or services described in each claim by reviewing detailed receipts. The claims auditor, on behalf of the Board, is responsible for ensuring that claims are legitimate and in accordance with District policy prior to authorizing payment. Other than a few specific exceptions authorized by Education Law,² all claims must be audited before payments can be made.

During our last audit of the District,³ we found weaknesses with controls related to the processing of claims. We specifically recommended that the District perform a thorough audit of all claims and ensure that payments were only made after the claims were audited. Subsequent to that audit, the Board delegated the responsibility of auditing claims to a claims auditor⁴ and as a result, the District's internal controls over claims processing have improved. However, we found the District did not take full corrective action and continued to utilize an inadequate practice for processing and paying claims prior to audit. According to District officials, they have an informal policy to pay certain claims prior to audit each month to meet payment deadlines; however, not all of these payments are allowed by Education Law to be paid prior to audit. Furthermore, the claims auditor is a full time District employee, and is available to audit claims so they can be paid timely. These payments are listed on a separate warrant each month entitled "Claims Paid to Meet Deadlines."

Using an electronic spreadsheet number generator, we randomly selected 65 canceled checks totaling \$176,419 and traced to approved warrants and supporting claims to determine if they were audited prior to payment, included sufficient supporting documentation,

² For example, public utility services, postage, freight and express charges.

³ Previous audit report issued in 2008, Report 2008M-99, *Internal Controls Over Claims Processing*.

⁴ District took corrective action by appointing a claims auditor in July 2008.

and appeared to be for legitimate District purposes. We found all 65 payments were listed on warrants, supported by claims with sufficient supporting documentation and were for reasonable District expenditures. However, five of the 65 payments totaling \$4,457 were paid prior to audit but did not meet the criteria in Education Law to be paid prior to audit. For example, one payment was a check to a teacher totaling \$600 for a cash advance. We did find that all five claims were audited by the claims auditor after being paid and were listed on warrants entitled “Claims Paid to Meet Deadlines” that were subsequently approved by the Board, however, they were not audited prior to payment as required.

Based on this weakness, we performed further testing by selecting a judgmental sample of 52 claims totaling \$201,773: 20 claims totaling \$63,721 from regular warrants, 20 claims totaling \$131,329 from warrants entitled “Claims Paid to Meet Deadlines,” and 12 manual checks totaling \$6,723 that were written from the federal fund and also listed on the separate warrants for payments made prior to audit. We found that 29 of the 52 payments totaling \$47,862 did not meet the criteria to be paid prior to audit. This included 17 of the 20 claims on the “Claims Paid to Meet Deadlines” warrants and all 12 manual check payments. We also examined the 52 payments to determine if they contained sufficient supporting documentation and were legitimate District expenditures and found no exceptions.

Although our testing found no indication that improper payments were made, an environment where claims are paid prior to audit and approval by the claims auditor weakens the District’s otherwise effective system of internal controls over the claims process.

Recommendation

1. The Board should ensure that no claim against the District, other than those allowed under Education Law, is paid prior to audit and approval by the claims auditor.

APPENDIX A

RESPONSE FROM DISTRICT OFFICIALS

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

GLENS FALLS CITY SCHOOL DISTRICT

15 Quade Street, Glens Falls, New York 12801

Telephone: 518-792-1451

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Paul Jenkins
Superintendent

Stephen R. Meier
Director of Business

March 1, 2012

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 for the Period July 1, 2010 to September 20, 2011, the following recommendation was made:

The Board should ensure that no claim against the District, other than those allowed under Education Law, is paid prior to audit and approval by the claims auditor.

The policy of the Glens Falls City School District is to ensure that all claims presented for payment represent actual and necessary expenditures, contain supporting documentation to determine compliance with District policies and are paid on a timely basis. To achieve this policy, all claims are to be reviewed monthly by the Internal Claims Auditor and the Director of Business. Any claims paid out of the normal monthly warrant and only reviewed by one of the above before payment, is to be presented to the Board of Education as a Claim to Meet Deadline. The Internal Claims Auditor must review all claims and submit an exception report with the warrant to the Board of Education for their review and approval.

Effective immediately, the policy of the Glens Falls City School District will be modified. To ensure that all claims presented for payment represent actual and necessary expenditures, contain supporting documentation to determine compliance with District policies and are paid on a timely basis, all claims are to be reviewed bi-weekly by the Internal Claims Auditor. The Internal Claims Auditor shall submit bi-weekly exception reports and warrants to the Board of Education for their review and approval at the next scheduled monthly Board of Education meeting.

Respectively submitted on behalf of the Board of Education,



Paul Jenkins
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, and payroll and personal services.

During the initial assessment, we interviewed 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 on the reported objective and scope by selecting for audit those areas most at risk. We selected claims processing for further audit testing.

To accomplish the objective of this audit and obtain valid audit evidence, our procedures included the following:

- We interviewed District officials and employees and reviewed the Board's process for paying claims to gain an understanding of the District's procedures for auditing claims.
- We randomly selected 50 checks from the general fund and five checks each from the internal, federal and construction funds, for a total of 65 checks out of a total population of 3,297 checks. To select the 65 checks, we used an electronic spreadsheet function to generate 60 random numbers that corresponded to check numbers for the general fund and 10 each for the internal, federal and construction funds. We then used the first 50 checks for the general fund and first five checks for the internal, federal and construction funds in each that were not duplicated, voided checks or payroll checks in our sample.
- Due to our review of the District's warrants, we selected an additional sample of 40 claims by selecting the first and last warrant during the two fiscal years that were part of our audit period. We selected the warrants from July 2010, June 2011, July 2011 and September 2011. We then judgmentally selected 10 claims from each of these warrants: five of the claims as part of the regular warrant and five claims as "Paid to Meet Deadlines." We selected our sample by vendor name and large dollar amounts.

- We judgmentally selected 12 manual checks from the federal fund from the period July 1, 2010 to June 30, 2011, not including checks written to the trust and agency fund for payroll liabilities. This sample selection was determined based on the higher risk of manual checks being used.

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

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