



Green Island Union Free School District Claims Processing

Report of Examination

Period Covered:

July 1, 2010 — January 31, 2012

2012M-72



Thomas P. DiNapoli

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State of New York Office of the State Comptroller

Division of Local Government and School Accountability

August 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 Green Island Union Free School District, entitled 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 Green Island Union Free School District is located in the Village of Green Island, Albany County. The District is governed by the Board of Education (Board), which comprises five 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. According to information filed with the State Education Department, the District had a student enrollment of 347 as of January 7, 2012.

The District's 2010-11 operating expenditures totaled \$6,523,974 for the general fund and \$327,898 for special aid fund. These expenditures were funded with revenues from local taxes and from State and federal aid.

The Board was responsible for auditing claims against the District until September 1, 2011, at which date the Board appointed a claims auditor to perform that function.

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 claims audited in a timely manner and in accordance with District policy and Education Law?

Scope and Methodology

We examined internal controls over claims processing for the period July 1, 2010 to January 31, 2012.

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 C 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. Except as indicated in Appendix A, District officials generally agreed with our recommendations and indicate they planned to take corrective action. Appendix B includes our comments on the District's response letter.

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

Education Law requires that the Board provide for a thorough audit of claims before they are paid to avoid paying for goods or services that District officials did not authorize or did not receive. However, we found that all 50 claims we reviewed were paid without being audited: until the Board appointed a claims auditor on September 1, 2011, claims were not audited at all; after this date, the claims auditor audited claims, but only after they were paid. While all 50 claims represented proper District costs, the District's practice of auditing claims after they are paid will not prevent the payment of inappropriate costs. The Board can reduce this risk by requiring that claims be audited and approved before the Treasurer pays them.

Education Law stipulates that all claims against the District, except for salaries of employees and other rare exceptions,¹ shall not be paid unless an itemized voucher, approved by the officer initiating the claim, is presented to the Board or a Board-appointed claims auditor for audit and approval. During the claims audit process, the Board (or the claims auditor, if one is appointed) must determine whether each claim is properly authorized and accurate, whether the purchase represents a valid District expense for goods or services, and whether the goods or services were actually received. Audited claims should be included on warrants certified by the claims auditor, and the Treasurer may not sign a check for payment unless the claims auditor has reviewed and certified each claim authorizing payment.

During our prior audit of the District,² we found weaknesses in controls related to the processing of claims and we specifically recommended that the District perform a thorough audit of all claims and ensure payments are made only after the claims are audited. On September 1, 2007, the Board did adopt policies and procedures for claims audit, which included the Board's stated intention to appoint a claims auditor. During our audit period, the Board did not appoint a claims auditor until September 1, 2011. The Board was, therefore, responsible for performing a proper audit of claims from July 1, 2010 through August 31, 2011. However, the Board did not do so, either before or after claims were paid. Further, although the claims auditor does audit claims, the review takes place after the Treasurer has paid the vendors. District officials informed us that all claim payments are made prior to a review by the claims auditor.

¹ Education Law authorizes the Board to authorize by resolution the payment of certain claims (e.g., public utility services) in advance of audit. All such claims must still be presented for audit subsequent to being paid.

² Report 2008M-56, released on July 2, 2008

Because of these weaknesses in the claims audit process, we selected 50 cancelled checks from the general fund totaling \$193,320 and traced them to approved warrants and supporting claims to determine if the claims included sufficient supporting documentation and appeared to be for legitimate District purposes. Of the 50 claims selected, 33, totaling \$54,393, were paid prior to the appointment of the claims auditor, and were not audited; the remaining 17 claims, totaling \$138,927, were audited by the claims auditor after payment. All 50 of the claims selected were for legitimate District purposes. When claims are audited after payment is made, the District cannot detect and prevent overpayments or improper payments before they occur.

Recommendation

1. The Board should ensure that all claims, other than those exceptions allowed by Education Law, are audited and approved by the claims auditor before the Treasurer pays them.

APPENDIX A

RESPONSE FROM DISTRICT OFFICIALS

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

DR. MICHAEL MUGITS, Superintendent

ERIN L. PETEAN, Principal

ANGELA E. LEGAULT, District Clerk

EDMUND D. GALKA, Business Manager

LINDA M. BOSKO, District Treasurer

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APPENDIX A

RESPONSE FROM DISTRICT OFFICIALS

The District officials' response to this audit is set forth in the paragraphs that follow:

The Green Island Union Free School District would initially point out that Appendix B of this audit report in the first paragraph indicates the areas reviewed in the initial assessment of controls to determine areas most at risk in the District. The second paragraph explains the procedures that the auditors followed to make the evaluation and the third, the selection of the area determined most at risk, "claims processing"..

See Note 1 Page 9

The fourth paragraph indicates the specific detailed procedures utilized by the auditors in the review of the 50 checks (claims) that they examined

The CLAIMS PROCESSING section of the report discusses the fact that claims were either paid without internal claims auditor approval (because the District did not appoint one during a portion of the audit period) or claims were audited after payment date.

We remind you that our District is small with only 3 employees involved in financial matters and that the District attempts to exercise the best control procedures within the 3 persons performing the activities and does not have available a person on staff who would effectively perform the functions required of an internal claims auditor. Also, vendors require payment for goods and services in a timely manner.

See Note 2 Page 9

We acknowledge that we appointed an internal claims auditor effective September 1, 2011 to audit paid claims and that the District did not have such a person prior to that time. The Board, however, accepts the paid warrants at the Board meeting the first Thursday of each following month. We also agree that a much better procedure to prevent the payment of any potential inappropriate cost would be the audit of these claims before payment by employing an internal claims auditor to perform required procedures before payments are made by the District Treasurer. To date, our contracting with an independent contractor for performing required duties has not provided for timely review of claims before payment.

Although there will be a significant unfunded cost to our District for this NYS mandate and the potential for late payment of invoices, we will comply with the required pre audit of claims by an independent internal claims auditor beginning in Summer 2012.

As documented futher in the first paragraph of claims processing, the audit of the 50 claims by the field auditor resulted in the affirmation that all payments were made for proper District costs.

Signed Dr. Michael James Mugits

APPENDIX B

OSC COMMENTS ON THE DISTRICT'S RESPONSE

Note 1

In the final report, Audit Methodology and Standards is Appendix C. The District is responding to the draft report, in which it was labeled Appendix B.

Note 2

While we recognize that this requirement is more difficult for smaller districts, the claims auditing process is an integral part of the District's internal control and a separation of duties is essential for safeguarding taxpayer funds.

APPENDIX C

AUDIT METHODOLOGY AND STANDARDS

Our overall goal was to determine if claims were audited in a timely manner and in accordance with District policy. 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 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. We then decided on the reported objective and scope by selecting for audit those areas most at risk. We selected claim 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 and to gain an understanding of the District's procedures for auditing claims.
- We randomly selected 50 checks from the general fund out of a total population of 1,420 checks. To select the checks, we used an electronic spreadsheet function to generate 50 random check numbers that became our sample, with our lower and upper bounds being the first and last check written during our scope period.
- Each check was reviewed in conjunction with the voucher packet, warrant, and bank statement to determine: if the claim was mathematically accurate, if it included a duplicate payment, if a purchase order was included in the voucher packet, if evidence of receipt was included in the voucher packet, and if the claim was for a proper district purpose. Each claim in the sample was also reviewed to determine if the claim was audited, and if the audit was performed prior to payment.

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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