



Piseco Common School District Claims Auditing

Report of Examination

Period Covered:

July 1, 2014 – July 31, 2015

2015M-230



Thomas P. DiNapoli

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State of New York Office of the State Comptroller

Division of Local Government and School Accountability

December 2015

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 Piseco Common School District, entitled Claims Auditing. 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 New York State General Municipal Law.

This audit's results 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 Piseco Common School District (District) is located in the Towns of Arietta and Morehouse in Hamilton County. The District is governed by the Board of Education (Board), which is composed of three 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 District's chief executive officer and is responsible, along with other administrative staff, for the District's day-to-day management under the Board's direction.

The District does not operate a school, but maintains one building and provides an after school program, a library and transportation services to 30 resident students who attend schools within three other school districts on a tuition basis.¹ The District has two full-time and eight part-time employees, and budgeted appropriations for the 2015-16 fiscal year are approximately \$1 million, funded primarily with real property taxes.

Objective

The objective of our audit was to evaluate the effectiveness of the District's claims auditing procedures. Our audit addressed the following related question:

- Are claims adequately documented and supported, for legitimate District purposes and approved prior to payment?

Scope and Methodology

We examined the District's claims audit process for the period July 1, 2014 through July 31, 2015.

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. 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 size of the relevant population and the sample selected for examination.

Comments of District Officials

The results of our audit have been discussed with District officials, and their comments, which appear in Appendix A, have been considered in preparing this report. District officials agreed with our report.

¹ District students attend schools in the Lake Pleasant Central School District, the Wells Central School District and the Greater Johnstown School District.

Claims Auditing

New York State Education Law (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. The Board may delegate the claims audit function by appointing a District employee, an independent contractor or an individual employed through an intermunicipal cooperative agreement or through shared services to the extent authorized by law. However, it may not be appropriate for a Board of Cooperative Educational Services (BOCES) to provide claims auditing services to its component districts because the districts could have material and significant contract payments² to that BOCES.

An effective claims process ensures that every claim against the District is subjected to an independent, thorough and deliberate review. Such a review should also ensure that every claim contains enough supporting documentation to determine whether it complies with statutory requirements and District policies and that the amounts claimed represent actual and necessary District expenditures. In addition, it is important for the claims auditor to determine whether the claims are properly itemized and supported and whether the District actually received the goods or services described on each claim.

As part of the District's Cooperative Service Agreement (CoSer) with the Hamilton-Fulton-Montgomery (HFM) BOCES, the District cross-contracted with the Otsego Northern Catskills (ONC) BOCES to audit the District's claims. The cross-contract provides for HFM BOCES to bill the District for the services of ONC BOCES and for ONC BOCES to be paid for these services by HFM BOCES. The Board's delegation of the District's claims auditing responsibility to the ONC BOCES was acceptable because the District does not pay ONC BOCES directly, and, therefore, the ONC BOCES employee responsible for auditing claims would not audit and approve any claims for ONC BOCES.

We commend District officials for establishing effective procedures to ensure claims are adequately documented and supported, for legitimate District purposes and approved prior to payment in accordance with District policy and Education Law. The Board adopted a claims audit

² Contract payments include all payments to a BOCES for goods and services provided to the District, which, if significant or material, may impair the claims auditor's independence and result in a conflict of interest.

policy which required the claims auditor to examine all claims, ensure funds were available and ensure the claims were substantiated. The policy states that claims shall be paid by the Treasurer only upon the approval of the claims auditor. Additionally, ONC BOCES developed written guidelines for the claims auditor to follow. These guidelines required the claims auditor to ensure the claims were mathematically accurate, not for goods or services already paid for, itemized and contained evidence the District received the goods and services. The claims auditor was also required to provide a standardized monthly report to the Board. These procedures ensured the claims auditor followed the Board's policy.

We reviewed 40 claims³ totaling \$108,161 paid during our audit period to verify whether these claims were properly authorized and documented with itemized invoices or accompanying receipts listing the amount and quantity of the goods or services purchased. We also reviewed these claims to determine whether they were mathematically accurate and for legitimate District purposes and whether the claims auditor audited and approved them before payment was made. Except for minor discrepancies, which we discussed with District officials, all the claims reviewed were properly authorized and documented with sufficient supporting itemized invoices or receipts. Establishing and adhering to effective claims auditing procedures decreases the risk that fraud, abuse or errors may occur and go undetected.

³ District officials paid 447 claims totaling \$937,321 during our audit period. See Appendix B for more information on our sampling methodology.

APPENDIX A

RESPONSE FROM DISTRICT OFFICIALS

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

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November 30, 2015

Office of the State Comptroller
Division of Local Government and School Accountability
110 State Street, 15th Floor
Albany, NY 12236

To Whom It May Concern:

We have reviewed the Report of Examination for the Piseco Common School District, labeled 2015M-230 and issued recently, and agree with its findings.

Sincerely,

Richard G. Rose
Superintendent of Schools

APPENDIX B

AUDIT METHODOLOGY AND STANDARDS

To achieve our audit objective and obtain valid evidence, we performed the following procedures:

- We interviewed District staff and ONC BOCES staff to gain an understanding of the claims auditing process and reviewed the District's policies and procedures for claims processing.
- We used a random number generator to select 40 claims from the abstracts (lists) of claims paid during our audit period. We reviewed these claims to determine if they were properly authorized and documented and if the claims included itemized invoices or accompanying receipts listing the amount and quantity of goods or services purchased. We also reviewed the claims to ensure they were for legitimate District purposes and audited and approved for payment by the claims auditor before payment was made.

We conducted this performance audit in accordance with 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.

APPENDIX C

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