



Indian Lake Central School District Claims Auditing

Report of Examination

Period Covered:

July 1, 2014 — September 30, 2015

2016M-15



Thomas P. DiNapoli

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State of New York Office of the State Comptroller

Division of Local Government and School Accountability

April 2016

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 Indian Lake Central 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 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 Indian Lake Central School District (District) is located in the Town of Indian Lake in Hamilton County. The District is governed by the Board of Education (Board), which is composed of 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 District's chief executive officer and is responsible, along with other administrative staff, for the day-to-day management of the District under the Board's direction. The Board also appointed the Superintendent to serve as the District's purchasing agent. The Business Manager also serves as the Board-appointed Treasurer and is assisted by an account clerk to conduct the various activities in the District's business office, including reviewing claim documentation and warrants.

The District operates one school with approximately 120 students and 54 employees. The District's budgeted appropriations for the 2015-16 fiscal year are approximately \$6.3 million, which are funded primarily by real property taxes and State aid.

Objective

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

- Did the Board establish an adequate claims auditing process?

Scope and Methodology

We examined the District's claims auditing process for the period July 1, 2014 through September 30, 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 and Corrective Action

The results of our audit and recommendation 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 have initiated, or indicated they planned to initiate, corrective action.

The Board has the responsibility to initiate corrective action. Pursuant to Section 35 of General Municipal Law, Section 2116-a (3)(c) of New York State 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 Auditing

New York State Education Law requires the Board to audit all claims¹ before they are paid or to appoint a claims auditor to assume the Board's powers and duties with regard to examining and approving or disapproving claims. However, Education Law prohibits certain individuals from being appointed as claims auditor, including the Superintendent, Treasurer and clerical or professional personnel directly involved in the District's accounting and purchasing functions. An effective claims processing system ensures that every claim against the District is subjected to an independent, thorough and deliberate review, that each 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 District has actually received the goods or services described in each claim. If the Board performs the claims audit function, all Board members must audit each claim and associated voucher packet² and be familiar with the auditing process.

The Board did not establish an adequate claims auditing process. The Board adopted a claims auditing policy which contains provisions related to the appointment and duties of the claims auditor if the Board chooses to have a claims auditor assume its responsibility for auditing claims. However, the Board did not appoint a claims auditor, nor did the Board perform the claims auditing function. Instead, the Board reviewed and approved warrants,³ which is not an acceptable substitute for the requirement to audit each claim. Further, while the Board's approval of the warrant was generally performed prior to the disbursement of funds to pay the claims, in some instances checks were prepared and distributed prior to the Board's approval of the warrant. As part of the District's claims process, the account clerk received deliveries and reviewed invoices and the Business Manager prepared warrants and signed checks. While this process does provide for the review of claim documentation, by law neither of these positions are eligible to perform the duties of a claims auditor.

¹ A claim is a demand presented for the payment of money due for goods that have been delivered or services that have been provided.

² A voucher packet is the claim and the associated supporting documentation (purchase order, original invoice, receiving reports and other documents) supporting compliance with statutory requirements and District policies and that the amounts claimed represent actual and necessary District expenditures.

³ A warrant is a list of all claims against the District, which is provided to the Board for approval after claims are audited.

Because the Board did not establish an adequate claims audit process, we reviewed a sample of 65 claims⁴ totaling \$496,536 to determine if the claims were adequately supported and documented and the goods or services had been received and were for proper District purposes. We also determined whether the payees and amounts paid on the canceled checks agreed with the related claims and warrants. Other than minor deficiencies, which we discussed with District officials, our review of the claims found that they were adequately supported and documented, and the goods or services had been received and were for proper District purposes. Additionally, the payees and amounts paid on the canceled checks agreed with the claims and the warrants. However, the absence of a deliberate and thorough audit of claims places the District at risk that erroneous or irregular claims could be submitted to and paid by the District.

Recommendation

1. The Board should ensure that a deliberate and thorough audit of every claim is conducted, either by each member of the Board or an individual appointed by the Board who meets the statutory qualifications.

⁴ See Appendix B, Audit Methodology and Standards, for details on sample selection.

APPENDIX A

RESPONSE FROM DISTRICT OFFICIALS

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

Indian Lake Central School

6345 104th St. Rt 30
Indian Lake, New York 12842
(518) 648-5024
Fax (518) 648-6346

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Louann Tetrault

March 16, 2016

Jeffrey P. Leonard, Chief Examiner
Office of the State Comptroller
One Broad Street
Glens Falls, NY 12801-4396

Dear Mr. Leonard:

The Indian Lake Central School District Board of Education and Administration acknowledge the final Report of Examination for the period covering July 1, 2014 – September 30, 2015 focusing on our Claim's Auditing process 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.

The Board of Education and Administration have reviewed the final report and agree with its findings. The Board will be appointing a Claim's Auditor to effectively audit and process all district claims to make sure that all claims are adequately supported and documented and that goods and services have been received and were for proper District purposes before any payments are distributed.

This response also contains our corrective action plan.

On behalf of the Board and Administration, I want to extend a thank you to the Field Auditors and staff involved with the examination of our financial operations. Field Auditors conducted themselves in a professional and courteous manner while on site and we appreciate their efforts and professional information that they provided during the audit period.

Yours truly,

Mark T. Brand
Superintendent

APPENDIX B

AUDIT METHODOLOGY AND STANDARDS

Our overall goal was to determine if the Board had established an effective claims auditing process. We obtained an understanding of the District's claims auditing process by interviewing appropriate District officials, performing tests of disbursements and reviewing other relevant documents.

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

- We reviewed policies and procedures and interviewed officials to gain an understanding of the claims auditing process. We reviewed Board meeting minutes to determine if the Board approved warrants.
- We randomly selected 50 claims totaling \$38,194 paid from the general fund using a random number generator and judgmentally selected 15 claims totaling \$458,342 paid out of the cafeteria, special aid, capital and trust and agency funds to determine if they were adequately documented, for proper District purposes and accurately recorded in the accounting records. We also determined whether the payees and amounts paid on the canceled checks agreed with the claims and warrants.

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.

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