



North Colonie Central School District

Claims Processing

Report of Examination

Period Covered:

July 1, 2011 — September 30, 2012

2013M-9



Thomas P. DiNapoli

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State of New York Office of the State Comptroller

Division of Local Government and School Accountability

March 2013

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 North Colonie Central 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 North Colonie Central School District (District) is located in the Town of Colonie, Albany 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 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.

There are eight schools in operation within the District, with approximately 5,400 students and 920 employees. Budgeted general fund expenditures for the 2012-13 fiscal year are \$94.1 million, funded primarily with real property taxes and State aid.

The Board designated a claims auditor for the 2010-11 and 2011-12 fiscal years. The claims auditor reports directly to the Board and is responsible for formally examining, and allowing or rejecting, all claims against the District.

Objective

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

- Are claims audited in a timely manner and properly supported?

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 condition and oversight, control environment, cash receipts and disbursements, purchasing, payroll and personal services, and information technology. 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, 2011 to September 30, 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 B of this report.

**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 agreed with our recommendation and indicated they have already initiated 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 expenditures. 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, all claims must be audited before payments can be made.

The Board adopted claims processing policies which require all claims to be audited prior to payment except for certain allowed exceptions. District policy requires the claims auditor to ensure that all claims are properly authorized, itemized, and supported, and that goods and services have been received in the amount and price as ordered prior to payment. We randomly selected 45 claims from all funds, totaling \$60,051, during our audit period and tested them to see if they were properly supported and audited in a timely manner. We found no exceptions. All of the 45 claims tested were audited timely and properly supported.

We also reviewed the District's procedures for payments to its dental insurance provider. The District reimbursed its dental insurance provider via automated clearing house (ACH) debits for payments made on behalf of District employees, totaling \$554,458, during our audit period. District officials stated these claims were not audited prior to payment. We judgmentally selected the top five dollar amounts of ACH debits made to the dental insurance provider, totaling \$73,087, to determine if they were properly supported and audited in a timely manner and prior to payment. The claims were paid each week from summary invoices which the District received via email from the dental provider. The actual bill detail was provided to the District at least a week after the ACH payment had been made, and the payments were not audited by the claims auditor until one or two weeks later. The purchasing agent stated the ACH payment

arrangement was made when the District changed dental providers in the 2005-06 fiscal year, as this was the method preferred by the vendor. As of the end of our field work, District officials indicated that, going forward, they would take steps to ensure these claims would be audited and approved prior to payment.

While these claims appeared to be legitimate District claims, the lack of a thorough audit prior to payment increases the risk that unauthorized disbursements of District funds may be made and not detected in a timely manner. The audit of claims is a necessary and effective control for preventing unauthorized or improper payments.

Recommendation

1. The Board should ensure that no claim against the District, other than those specifically allowed by 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.

March 21, 2013

[REDACTED]
NYS Office of the State Comptroller
Division of Local Government and School Accountability
One Broad Street Plaza
Glens Falls, NY 12801

Dear [REDACTED]

Please accept this letter in response to the finding outlined in the Comptroller's Office *Report of Examination* for the period July 1, 2011 to September 30, 2012 that was reviewed with the Audit Committee and District staff during the exit conference held on February 26, 2013.

Claims Processing

The District is self-insured for some dental benefits and makes weekly ACH payments to the claims processor for the claims paid in the previous week. These claims were reviewed and approved by the claims auditor semi-monthly. Since December 2012, we have the claims auditor review and approve the individual ACH payment requests prior to releasing the payment.

The District would like to thank the members of your field team for their competent, courteous and professional manner in which they conducted themselves during the examination period.

Sincerely,

Thomas J. Rybaltowski
Assistant Superintendent for Business

c: Board of Education
D. Corr
S. Morrison
S. Zautner

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BUSINESS OFFICE

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 the District's 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 condition and oversight, control environment, cash receipts and disbursements, purchasing, payroll and personal services and information technology.

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. 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 staff and reviewed the procedures used for processing claims at the District.
- We selected the 45 claims paid during our audit period from all funds using the random number generator feature in our electronic spreadsheet application. Our lower and upper bounds were the first and last checks written during our scope period.
- We judgmentally selected the top five ACH debit payments to the dental provider based on risk.
- We examined the selected claims to determine if the claims were properly authorized, contained evidence that the goods were received or the services were rendered, were mathematically correct and supported by purchase orders where applicable, were supported by an itemized invoice, were for a valid and legal purpose, and were audited prior to payment. We also traced the payments to the bank statements, the original warrants, and to Board minutes.

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 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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AND SCHOOL ACCOUNTABILITY

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