



Beacon City School District Claims Auditing

Report of Examination

Period Covered:

July 1, 2014 – September 30, 2015

2016M-20



Thomas P. DiNapoli

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State of New York Office of the State Comptroller

Division of Local Government and School Accountability

June 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 Beacon City 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 Beacon City School District (District) is located in the City of Beacon, Dutchess County. The District is governed by the Board of Education (Board), which is composed of 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 District's day-to-day management under the Board's direction.

The District operates six schools with approximately 3,400 students and 670 employees. The District's budgeted appropriations for the 2014-15 and 2015-16 fiscal year were \$64.6 million and \$66.3 million, respectively, which were funded primarily with State aid, sales tax, real property taxes and grants.

The Board established the claims auditor position in 1994 and delegated its authority to audit claims to the claims auditor. The Deputy Superintendent serves as the purchasing agent and is responsible for administering all purchasing activities.

Objective

The objective of our audit was to examine the claims audit function. Our audit addressed the following related question:

- Did the Board provide proper oversight of the District's 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 C 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 recommendations have been discussed with District officials, and their comments, which appear in Appendix A, have been considered in preparing this report. Except as specified in Appendix A, District officials agreed with our recommendations

and indicated they planned to take corrective action. Appendix B includes our comment on an issue raised in the District's response letter.

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

Education Law requires that the Board audit all claims before payment or appoint a claims auditor to assume the Board's powers and duties for examining and approving claims. When a claims auditor is appointed to assume the Board's claims auditing duties, the claims auditor must report directly to the Board.

An effective claims processing system ensures that every claim against the District contains enough supporting documentation to determine whether the goods or services purchased comply with statutory requirements and District policies and if the amounts claimed represent actual and necessary District expenditures. The Board should ensure that there is a purchasing policy that the claims auditor can use as criteria when examining claims.

The Board needs to improve its oversight of the claims audit function. The Board did not develop a comprehensive job description that outlines the expectations and requirements of the claims auditor. It also did not provide purchasing policies for the claims auditor to use as guidance when auditing the claims related to purchases that do not require competitive bidding. In addition, the claims auditor did not ensure that sufficient funds were available on open purchase orders when approving claims, resulting in eight open purchase orders being overspent by \$77,436.

Board Oversight

The Board must provide the claims auditor with proper guidance. This can be achieved by developing a comprehensive job description which outlines the claims auditor duties and should include a requirement to routinely report to the Board on the claims audit results. In addition, the Board should have policies and procedures available that provide criteria against which the claims should be audited.

Instead of reporting to the Board, the claims auditor reports to the Deputy Superintendent, who also serves as the District's purchasing agent. This process does not allow for sufficient independence within the claims auditing process because the claims auditor discusses deficiencies identified while examining claims with the person who initiated the purchases and, subsequently, the claims. As a result, the Board was not aware of any deficiencies and problems with claims prior to the claims being paid. This occurred because the Board did not develop a comprehensive job description explaining the claims auditor's duties and did not require the claims auditor to routinely report to the Board. When the claims auditor reports to the purchasing agent instead of the Board, the Board's oversight of the claims is diminished.

In addition, the Board did not adopt a policy or procedures for the procurement of goods and services that are not required to be competitively bid. As a result, the claims auditor did not have criteria against which to audit those claims.

We randomly selected 50 claims totaling \$1,072,881 from the 2,932 claims processed during the audit period totaling \$26,844,037 to determine whether the claims were properly audited. We found no exceptions. However, 18 of the 50 claims reviewed totaling \$50,754 did not require competitive bidding, but did require quotes. We determined that quotes were not obtained for seven of these (40 percent) totaling \$9,802. While it appears that some bids or quotes are being obtained and other relevant documents pertaining to the claims were reviewed, the claims auditor did not question the use of competitive methods for the purchases made or report to the Board the lack of competition when making purchases. As a result, the claims auditing process did not identify possible weaknesses in the District's purchasing process and the District may be paying more for goods and services than necessary.

When the Board does not provide proper oversight for the claims auditing process, there is an increased risk that errors or irregularities could occur and remain undetected and uncorrected.

Open Purchase Orders

Open purchase orders (OPOs) are used for the purchase of goods or services that are needed on a repetitive basis or for priced contractual purchases. The District frequently uses OPOs. Purchases made using OPOs are not approved by the purchasing agent. Therefore, it is especially important for the claims auditor to verify that sufficient funds are available for this type of purchase.

We identified 220 OPOs that were issued during our audit period. We randomly selected 28 totaling \$1.9 million to determine whether they were overspent. The claims auditor did not verify whether the OPOs had sufficient funds available before approving them. As a result, eight of the 28 OPOs were overspent by \$77,436. The overspent OPOs included \$58,000 overspent for health insurance premium payments, \$11,000 overspent for the purchase of a bus and \$6,000 overspent on payments to the New York State Dormitory Authority.

Because the claims auditor did not verify that sufficient funds were available for the OPOs, the purchasing agent was unaware that excess purchases had been made, which reduced the District's ability to effectively control spending. As a result, there is an increased risk that District staff could make inappropriate purchases without going through the purchasing system, and it could pay more than necessary for goods and services.

Recommendations

The Board should:

1. Develop a comprehensive job description for the claims auditor to explain its expectations and requirements including the need to routinely report the results of the claims audit to the Board.
2. Develop and implement a purchasing policy and procedures for the procurement of goods and services when competitive bidding is not required by law to ensure that the claims auditor has adequate criteria against which to review claims.

The claims auditor should:

3. Ensure that all claims with an OPO have sufficient funds available before approving the claim for payment.

APPENDIX A

RESPONSE FROM DISTRICT OFFICIALS

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



**BEACON CITY SCHOOL DISTRICT
ADMINISTRATIVE OFFICES**

10 Education Drive
Beacon, NY 12508
Phone: 845-838-6900
Fax: 845-838-6905

Mrs. Karen Kellogg
*Executive Director of Curriculum
and Instruction*

Mrs. Cecilia Dansereau-Rumley
Director of Pupil Personnel Services

Mr. Martin Nemecek
*Director of Physical Education,
Health Services, Athletics, and Recreation*

April 19, 2016

Response to Report of Examination prepared the NYS Comptroller's Office for the period July 1, 2014 to September 30, 2015

Claims Auditing

Board Oversight

The Board of Education currently has policy 1335 – Appointment and Duties of the Claims Auditor that states that this position is appointed by the Board and reports directly to the Board. The district's claims auditor reviews all warrants and supporting documents each week before disbursements are sent out. Any discrepancies are noted on a form that details all the warrants that were reviewed and checks that were issued. Any issues that are discovered are communicated to the accounts payable clerk and they are corrected before any checks are disbursed. This report is filed in a binder in the Deputy Superintendent's office.

See
Note 1
Page 10

The district's claims auditor has been with the district for over 30 years and is extremely diligent in his responsibilities. Any issues he discovers are corrected before any disbursements are released. Although he knows that his position is a board appointment, he does file his report in a binder in the Business Office. We are in the process of developing a summary warrant report that allows the claims auditor to document the warrants that he has reviewed and communicate any deficiencies found directly to the Board.

The Board of Education is currently reviewing all of the district policies and will review the policy that addresses the procurement of goods and services to develop criteria that the district should be following when a bid is not required.

Open Purchase Orders

All purchase orders are approved on Finance Manager by the purchasing agent. The open purchase orders are prepared at the beginning of the school year to encumber anticipated expenditures for a contract or bid. The claims auditor reviews the open purchase order each time a payment is made against it to ensure that there is enough money available. When reviewing the examples cited in the report, we believe that those payments were made at the end of the school year and ended the purchase order for the school year. We did not increase the purchase order first as we would just be turning around and liquidating it when we made the final payment. We did ensure that there was sufficient money available in the budget code before processing the payment.

We will give the claims auditor view only rights to our accounting software so he can go in and review the amount outstanding on a purchase order before he approves a disbursement in the future.

Ann Marie Quartironi
Interim Superintendent

APPENDIX B

OSC COMMENT ON THE DISTRICT'S RESPONSE

Note 1

We reviewed Policy 1335 Appointment and Duties of the Claims Auditor during our audit. We determined that the policy was not adequate because it only provides a brief overview of the duties, rather than providing a detailed list of duties that the claims auditor is expected to follow.

APPENDIX C

AUDIT METHODOLOGY AND STANDARDS

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

- We reviewed the District’s policies and procedures over the audit of claims and purchasing.
- We interviewed District personnel and the claims auditor to obtain an understanding of the claims processing procedures.
- We selected a random sample of 50 claims using a spreadsheet sampling function from the 2,932 checks, totaling over \$26.8 million, processed during the audit period to ensure that they were properly audited.
- We selected all items that required quotes from the same 50 claims and requested the bid and quotes documents.
- We reviewed all 50 individual claims to confirm that each claim voucher was certified by the purchasing agent, the purchase was approved before it was executed, the supporting documentation included in the claim packet was sufficient, the voucher was audited by the claims auditor and the expenditure was for a valid District purpose.

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 D

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