

Lake Pleasant Central School District

Claims Auditing

MARCH 2022



OFFICE OF THE NEW YORK STATE COMPTROLLER
Thomas P. DiNapoli, State Comptroller

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Report Highlights

Lake Pleasant Central School District

Audit Objective

Determine whether the Lake Pleasant Central School District (District) Board of Education (Board) ensured claims were supported by adequate documentation, for appropriate purposes and properly audited and approved before payment.

Key Findings

We found the Board ensured that claims we reviewed were adequately documented and for appropriate purposes. However, claims were not always properly audited and approved before payment.

- Eleven signed checks (22 percent) reviewed totaling \$101,360 were printed and mailed before the claims auditor audited and approved the corresponding claims.
- Five non-check disbursements (38 percent) reviewed totaling \$109,371 were not audited and approved prior to payment.

Key Recommendations

- Ensure all claims are audited and approved before payment.
- Print and sign checks only after the claims have been audited and approved.

Except as specified in Appendix A, District officials generally 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.

Background

The District serves residents of the Towns of Arietta and Lake Pleasant and the Village of Speculator in Hamilton County.

The five-member elected Board is responsible for managing and controlling the District's financial and educational affairs. The Superintendent of Schools (Superintendent) is the chief executive officer and, along with other administrative staff, is responsible for day-to-day management under the Board's direction.

The Board-appointed claims auditor is responsible for ensuring claims are properly supported and meet procurement policy requirements.

Quick Facts

2021-22 Appropriations	\$5.2 million
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Enrollment	70
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Claims During Audit Period

Total Payments	\$2.2 million
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Check Disbursements Reviewed	\$320,509
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Non-check Disbursements Reviewed	\$282,869
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Audit Period

July 1, 2020 – September 30, 2021

Claims Auditing

What Is an Effective Claims Audit Process?

The Board is required 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 also adopt a resolution to authorize payments in advance of audit for public utility services (electric, gas, water, sewer and telephone), postage, freight and express charges. The claims for such prepayments should be audited as soon as possible after payment.

An effective claims audit process ensures every claim against the district is subjected to an independent, thorough and deliberate review and ensures that claims contain enough supporting documentation to determine whether each claim complies with statutory requirements and district policies, and the amounts claimed represent actual and necessary district expenditures. In addition, checks should be printed and signed only after the claims are audited and approved for payment. Furthermore, if claims are paid by non-check disbursements, such as Automated Clearing House (ACH) withdrawals¹ these disbursements should only be made after the claims are audited and approved for payment.

The Claims Auditor Did Not Audit All Claims Prior to Payment

The Board appointed a claims auditor to assume its powers and duties to examine and approve or disapprove claims. The Board also appointed an assistant claims auditor to audit claims in the absence of the claims auditor. On a monthly basis, the account clerk (clerk) provided the claims auditor with a warrant (i.e., list of claims) and the corresponding claims for audit and approval. Once the claims auditor completed her audit, she signed and dated a warrant checklist that provides the Treasurer with written authorization to pay the approved claims. The Treasurer will then process the disbursement checks for the clerk to mail out on either the day of the claims audit or the following day.

We reviewed 50 check disbursements totaling \$320,509 for claims paid during our audit period to determine whether the corresponding claims for these disbursements were supported by adequate documentation, for appropriate purposes and audited and approved before payment. All these claims were supported by adequate documentation and for appropriate purposes.

Once the claims auditor completed her audit, she signed and dated a warrant checklist that provides the Treasurer with written authorization to pay the approved claims.

¹ ACH is a clearing house and delivery system for processing large volumes of electronic payments between banks.

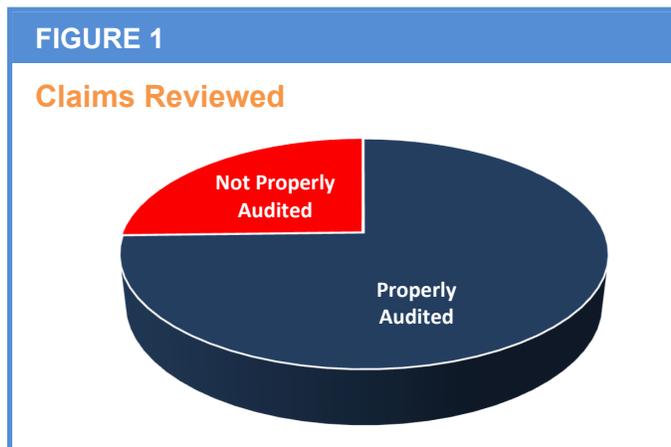
However, 11 of the check disbursements (22 percent) totaling \$101,360 were electronically dated and signed before the claims auditor audited and approved the corresponding claims. According to the Treasurer, disbursement checks are mailed within two business days indicating that the checks were printed and mailed prior to audit. These disbursements were for various purposes, such as services rendered, employee reimbursements (e.g., travel, trainings), school supplies and equipment, repair parts for District vehicles and postage fees.² The Treasurer told us she did not know specifically how 10 of the 11 checks were printed in advance of the audit. For the remaining disbursement totaling \$67,503, the Superintendent and Treasurer told us that the claims auditor was absent at the time when payment was required to be made for a vehicle and they did not consider having the assistant claims auditor audit and approve the payment.

We also reviewed the corresponding claims for all 13 non-check disbursements totaling \$282,869 paid to the Hamilton-Fulton-Montgomery Board of Cooperative Educational Services (BOCES) because BOCES required that component districts make ACH payments for contracted services. All claims were supported by adequate documentation and for appropriate purposes. However, the claims auditor did not audit and approve claims for five of these disbursements (38 percent) totaling \$109,371 before payment. This occurred because the Treasurer was paying claims by processing the ACH prior to providing the claims auditor with the corresponding claim packet for audit and approval.

Combined, the claims auditor did not properly audit 16 claims (25 percent) totaling \$210,732 (Figure 1).

When signed checks are printed before the claims auditor’s audit and approval and claims that are not allowed to be paid in advance are paid before the claim auditor’s audit and approval, there is an increased risk that improper claims could be paid.

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² The Board did not authorize payments in advance of the audit of claims for “public utility services, postage, etc.”

What Do We Recommend?

The Treasurer should:

1. Print signed checks only after the claims auditor has audited and approved the claims.
2. Ensure all claims, other than those allowed to be paid in advance of audit, are audited and approved by the claims auditor before payment.
3. Have the assistant claims auditor audit the claims in the absence of the claims auditor to ensure all claims are audited and approved before payment.

The Board should:

4. Ensure all claims are audited and approved by the claims auditor before payment by the Treasurer.

Appendix A: Response From District Officials



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Heather Philo, Superintendent
Jennifer Braunius, CSE/CPSE Coordinator
Elisha Christman, District Treasurer



February 10, 2022

Office of the NY State Comptroller
Division of Local Government and School Accountability
Atten: Gary G. Gifford, Chief Examiner
One Broad Street Plaza
Glens Falls, NY 12801-4396

Dear Mr. Gifford:

The Lake Pleasant Central School District would like to acknowledge receipt of the preliminary draft report of the audit entitled *Claims Auditing*. We would like to thank you for your thorough and complete examination of our entire business office, spanning four months. Please consider this as our response and corrective action plan.

The district acknowledges the auditors' findings, which state the district did not properly audit some claims prior to payment. To clarify, page 5 of the report states that "the Superintendent and the Treasurer explained that the Claims Auditor was absent during this time and that they did not consider having the assistant claims auditor audit and approve the payment." The Claims Auditor at that time was absent due to a death in her family and the assistant claims auditor was out for a major surgery. This is an unforeseen circumstance where neither the claims auditor or the assistant were available. For the two findings included in the report, the district has already taken actions detailed below.

See
Note 1
Page 7

Audit Finding/Recommendation #1:

Finding: Eleven signed checks (22 percent) reviewed totaling \$101,360 were printed and mailed before the claims auditor audited and approved the corresponding claims.

Recommendation: Ensure all claims are audited and approved before payment. Print and sign checks only after the claims have been audited and approved.

Corrective Action: The district has developed, as of December 14, 2021, a new process for claims auditing to include a new feature that has been upgraded within our accounting software. The claims auditor/assistant claims auditor will continue the same audit processes as well as the necessity to authorize each claim within the accounting software. With this newly added process, a check can only be printed once they are approved by the claims auditor/assistant claims auditor. The district can then provide a report showing each claim with an approval status to the Board of Education.

Audit Finding/Recommendation #2:

Finding: Five Non-Check disbursements (38 percent) reviewed totaling \$109,371 were not audited and approved before payment.

Recommendation: Ensure all claims are audited and approved before payment.

Corrective Action: The district has developed, as of December 14, 2021, a new process for claims auditing to include a new feature that has been upgraded within our accounting software. The claims auditor/assistant claims auditor will continue the same audit processes as well as the necessity to authorize each claim within the accounting software. With this newly added process, a check can only be printed once they are approved by the claims auditor/assistant claims auditor and then the District Treasurer will process the ACH. The district can then provide a report showing each claim with an approval status.

Sincerely,

Heather Philo,
Superintendent

HP/kt

Appendix B: OSC Comment on the District's Response

Note 1

Unfortunately, the absence of a claims auditor is not an exception to the requirement to audit and approve all claims prior to payment. When the claims auditor and assistant claims auditor are not available to audit the claims, the Board should assume this responsibility.

Appendix C: Audit Methodology and Standards

We conducted this audit 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. To achieve the audit objective and obtain valid audit evidence, our audit procedures included the following:

- We interviewed District officials and reviewed the policy manual and various financial records and reports to gain an understanding of procedures related to claims auditing and documented any associated effect of deficiencies in those procedures.
- We selected 50 check disbursements from the 827 checks disbursed for claims paid during the audit period and reviewed the corresponding claims to determine whether they were supported by adequate documentation, for appropriate purposes and audited and approved before payment. We compared the date that claims were audited by the claims auditor to the date that the corresponding check was printed. If the check date was prior to the audit date, we concluded that the check was printed prior to the audit and approval of the claims auditor. Additionally, we compared the dates the checks cleared the bank with the dates the claims auditor approved the claims. If a check cleared the bank before the claim was approved, we concluded that the claim was paid before the claims auditor's approval. We judgmentally selected our sample to include accounts payable checks issued throughout the audit period.
- We selected 13 ACH withdrawals from the 27 made to pay claims during the audit period and reviewed the corresponding claims to determine whether they were supported by adequate documentation, for appropriate purposes and audited and approved before payment. We judgmentally selected our sample to include all BOCES disbursements made throughout the audit period.

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.

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.

The Board has the responsibility to initiate corrective action. 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, 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. 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 CAP should be posted on the District's website for public review.

Appendix D: Resources and Services

Regional Office Directory

www.osc.state.ny.us/files/local-government/pdf/regional-directory.pdf

Cost-Saving Ideas – Resources, advice and assistance on cost-saving ideas

www.osc.state.ny.us/local-government/publications

Fiscal Stress Monitoring – Resources for local government officials experiencing fiscal problems

www.osc.state.ny.us/local-government/fiscal-monitoring

Local Government Management Guides – Series of publications that include technical information and suggested practices for local government management

www.osc.state.ny.us/local-government/publications

Planning and Budgeting Guides – Resources for developing multiyear financial, capital, strategic and other plans

www.osc.state.ny.us/local-government/resources/planning-resources

Protecting Sensitive Data and Other Local Government Assets – A non-technical cybersecurity guide for local government leaders

www.osc.state.ny.us/files/local-government/publications/pdf/cyber-security-guide.pdf

Required Reporting – Information and resources for reports and forms that are filed with the Office of the State Comptroller

www.osc.state.ny.us/local-government/required-reporting

Research Reports/Publications – Reports on major policy issues facing local governments and State policy-makers

www.osc.state.ny.us/local-government/publications

Training – Resources for local government officials on in-person and online training opportunities on a wide range of topics

www.osc.state.ny.us/local-government/academy

Contact

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