

Mount Morris Central School District

Claims Auditor

NOVEMBER 2022



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

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Report Highlights

Mount Morris Central School District

Audit Objective

Determine whether the Mount Morris Central School District (District) claims auditor performed a proper claims audit.

Key Findings

The claims auditor did not perform a proper claims audit because she did not ensure claims had adequate supporting documentation for her review prior to approval.

- We reviewed 89 claims totaling approximately \$5.3 million and found 86 claims did not contain adequate documentation for the claims auditor to perform a proper audit.
- The claims auditor inappropriately audited 17 of 41 claims that included Greater Southern Tier Board of Cooperative Educational Services (GST BOCES) service charges totaling \$58,320. The Board of Education (Board) should have audited these claims.

Key Recommendations

- Ensure claims contain adequate supporting documentation, such as approved quotes, bids and contracts.
- Properly audit all claims that include GST BOCES service charges.

District officials generally agreed with our recommendations and indicated they will take corrective action. Appendix B includes our comments on the District’s response.

Background

The District serves the Towns of Mount Morris, West Sparta, Leicester and Groveland in Livingston County.

The District is governed by the Board, which is composed of seven elected members.

The Superintendent of Schools (Superintendent) is the chief executive officer and, along with the Business Administrator, is responsible for day-to-day management under the Board’s direction.

On September 9, 2020, the Board delegated its claims auditing powers and duties to a GST BOCES central business office (CBO) employee pursuant to an agreement with the Genesee Valley BOCES, of which the District is a component school district. A District employee served as the claims auditor for the months of July and August 2020.

Quick Facts

June 2020 – March 2022

Claims Packets Reviewed by Claims Auditor	2,224
Dollar Value	\$17.6 million
Total Claims Reviewed	89
Dollar Value	\$5.3 million

Audit Period

July 1, 2020 – July 6, 2022

Claims Audit Process

What Is an Effective Claims Audit Process?

With the exception of officer or employee compensation and debt service, New York State Education Law (Education Law) requires a school district board to audit all claims before they are paid (Section 1724) or appoint a claims auditor to assume the board's powers and duties to examine and approve or disapprove claims (Section 1709). A board can delegate this function using shared services such as BOCES, but the board is then responsible for auditing all claims for services from BOCES. A claims auditor reports directly to the board and cannot be directly involved in the school district's accounting and purchasing functions.

An effective claims audit process ensures that every claim against the school district:

- Is subjected to an independent, thorough and deliberate review,
- Contains adequate supporting documentation to determine whether the amounts claimed comply with statutory requirements and school district policies, and
- Represents actual and necessary expenditures.

For example, when the purchasing policy requires school district officials to solicit competitive quotes or bids prior to purchase, evidence that they obtained the required number of quotes or solicited bids should be attached to the claim and reviewed by the claims auditor prior to approval for payment. Similarly, if school district officials make purchases from vendors awarded State, county or BOCES contracts, pricing documentation from the contracts should be attached to the claims and reviewed by the claims auditor prior to approval for payment.

The claims auditor should audit every claim against the school district before payment to determine whether the claim is properly itemized and supported and whether the school district received the goods or services described. Establishing and adhering to effective claims auditing policies and procedures decreases the risk that errors or irregularities in processing and paying claims could occur and not be detected in a timely manner.

The Claims Auditor Did Not Properly Audit Claims

The Business Administrator generally prepares claims packets twice a month after he ensures the goods were received and services performed, and that the amount to be paid is in accordance with the amount of the original purchase order. The Business Administrator prepares and mails physical copies of the claims packets containing copies of the approved purchase orders, invoices and receipts to the GST BOCES CBO accounts payable clerk.

The accounts payable clerk date stamps the claims packets and verifies the claim amount reconciles to the amount in the computerized accounting software program prior to providing the packets to a GST BOCES CBO data entry clerk to enter the check information, such as invoice numbers, in the memo lines and filling in remittance amounts by appropriation code. Once this is complete, the accounts payable clerk notifies the Business Administrator and Treasurer that checks are ready to print.

The Treasurer prints the checks and provides them to the Business Administrator, who scans and emails copies of the checks to the accounts payable clerk. The accounts payable clerk prints them out and attaches copies of the check to claims packets prior to providing them to the GST BOCES CBO claims auditor for review and approval.

The GST BOCES CBO claims auditor told us her review of the claims packet included:

- Footing the claims,
- Ensuring an invoice and receipt were attached,
- Ensuring appropriate signatures were included on the purchase order,
- Verifying the budget appropriation amount was not exceeded, and
- Verifying the correct expenditure account code was used.

After auditing the claims packets, the claims auditor emails the Business Administrator detailing any issues identified during her audit and indicates which claims are approved to be paid and those that are not. On a monthly basis, the claims auditor compiles the issues into a monthly claims audit report that is sent to the District Clerk for the Board's review.

The claims auditor did not have a copy of the District's purchasing policy to use as a reference while auditing claims to ensure the necessary quotes, bids and requests for proposals were obtained. Although the claims auditor provided a claims audit plan that contained 21 steps, including ensuring a contract was on file supporting the amount to be paid and expenditures requiring bids were supported or expenditures not requiring bids followed the District's policy requiring written and verbal quotes, she did not follow it.

We reviewed 89 claims,¹ consisting of 398 invoices, totaling approximately \$5.3 million and found only three claims totaling \$5,216 contained adequate documentation for the claims auditor to perform a proper audit. The 86 remaining claims packets reviewed and approved by the claims auditor lacked sufficient

¹ The District claims auditor reviewed and approved five claims totaling \$63,939, while the GST BOCES CBO claims auditor reviewed and approved 84 claims totaling almost \$5.3 million.

supporting documentation for all charges on the invoices, such as approved bids, quotes and contracts, because the Business Administrator did not provide them. The Business Administrator told us he did not provide this documentation because he wanted to limit mailing paper copies to the CBO, and the claims auditor did not request them. As a result, the claims auditor could not ensure that the amounts approved for payment were appropriate. The claims auditor stated that she does not review approved bids, quotes or contracts if they are not included in the claims packets she receives and that she trusts that District officials determined the billed amounts were correct before the claims were sent to the CBO. After our discussion with the Business Administrator, he immediately started sending this supporting documentation to the claims auditor for review.

Upon our request for additional supporting documentation, we were able to verify the correct rates were charged for 300 of the 398 invoices totaling approximately \$2.4 million. For 65 invoices, the District had partial documentation to support some of the charges on the invoices totaling approximately \$2.1 million, but no documentation to support charges totaling approximately \$793,000. For example, the Business Administrator did not always retain a copy of the Genesee Valley BOCES' adjustment to service request forms, which identified year-to-date adjustments. Finally, the District had no documentation to support the rates charged on 33 invoices, for items like landscaping supplies, soccer goals and printer paper, totaling \$42,809.

We also found the District overpaid two vendors totaling \$90 for goods and services. Although this is an immaterial amount, the fact that we found two instances in our limited testing increases the risk that other vendors also could have been overpaid.

When adequate supporting documentation, such as approved contracts and bids, are not part of the claims packet, the claims auditor is unable to verify that the appropriate rates for goods and services are charged. Therefore, District officials cannot provide assurance that goods and services were procured economically and in the best interest of taxpayers.

The Board Did Not Audit Genesee Valley BOCES Claims

The District is a component school district of Genesee Valley BOCES, but uses the GST BOCES CBO for claims auditing and accounts payable services. Genesee Valley BOCES submitted monthly invoices to the District, which included charges for GST BOCES CBO services. The GST BOCES CBO claims auditor audited and approved 17 of the 41 Genesee Valley BOCES claims that included charges for GST BOCES services, totaling \$58,320.

When a BOCES directly provides claims auditing services to a school district using a BOCES employee, while also providing goods and other services to the

...[T]he claims auditor could not ensure that the amounts approved for payment were appropriate.

same school district, the arrangement could require the claims auditor to approve claims submitted by their employer (i.e., BOCES). Under such circumstances, there is an increased risk that the claims auditor's objectivity and independence could be compromised.

What Do We Recommend?

The claims auditor should:

1. Ensure claims contain adequate supporting documentation, such as approved quotes, bids and contracts prior to approval.

District officials should:

2. Recover the overpayments identified in this report.

The Board should:

3. Audit and approve Genesee Valley BOCES claims for goods and services that include GST BOCES charges.

Appendix A: Response From District Officials



Mount Morris Central School

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November 3, 2022

Mr. Edward V. Grant Jr., Chief Examiner
Office of the State Comptroller
The Powers Building, 16 West Main Street - Suite 522
Rochester, New York 14614-1608

Unit Name: Mount Morris Central School District
Audit Report Title: Claims Auditor
Audit Report Number: 2022M-131

Dear Mr. Grant Jr.,

On behalf of the Board of Education and Administration of the Mount Morris Central School District, I would like to thank you and your staff for the completion of the OSC audit of the district claims audit process from June 2022 through March 2022. We thank the OSC audit team for its professionalism and communication throughout the process. We have reviewed the draft report issued by your office and we are in general agreement with your findings and recommendations.

In order to establish a controlled claims audit process, the District relied on the guidance provided in a Q&A dated August 25, 2006, published by NYSED Educational Management Services. This made it clear that, in accordance with Education Law §1709(20)(c), “a board [of education] shall be permitted to delegate the claims audit function to one or more independent entities by using...inter-municipal cooperative agreements” with a BOCES. Mount Morris is a component district of the Genesee Valley BOCES and receives significant and material services from it. Therefore, the District engaged GST BOCES to accomplish the claims audit cooperative service as it is a separate and distinct municipality from either GV BOCES or the District. Even though the cost of the services from GST BOCES shows up on the GV BOCES bill, its level of service is immaterial or insignificant as a percentage of the total bill (less than 1.5%). According to Q#12 in the guidance from NYSED, it may be appropriate for this audit relationship to exist. While the District asserts that the BOCES bills over the almost two-year period were fully reviewed and audited, we agree with the OSC audit team that the best and most transparent method to ensure no conflict of interest in the claims audit process is to have the Board of Education delegate a different independent entity to specifically audit the BOCES claim packet. In fact, the Board of Education has already acted to appoint someone to do this ahead of filing our official corrective action plan.

See
Note 1
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The District also agrees that for a full claims audit to occur, the claims auditor must have access to all the supporting documentation including any quotes secured, agreements showing approved rates, and bid packets where applicable. Prior to entering into an agreement with GST BOCES, claims auditing was done in house and therefore all this supporting documentation was easily accessible by the former claims auditor by going to the proper folders, handbooks, or digital files. When claims auditing moved off-site to GST BOCES, a proper system for ensuring they had similar access to all those documents was not fully implemented. In many cases, the District believes the issues was lack of availability not lack of claims documentation. We are grateful to the OSC audit team for identifying this and helping us focus on improving that portion of the AP and claims audit system.

See
Note 2
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We appreciate this opportunity to respond to the findings and recommendations of this report. The District will implement the recommendations of the State Comptroller's Office. A more detailed Corrective Action Plan (CAP) to implement all recommendations will be completed in the 90 days following the release of the final report. We thank you for assisting us in strengthening the operations and procedures of the District.

Sincerely,

Greg Bump
Superintendent of Schools

Appendix B: OSC Comments on the District Officials' Response

Note 1

When a school board delegates the claims audit function through an intermunicipal cooperative agreement, the board is responsible for auditing all claims for BOCES services. Also, when a BOCES provides claims auditing services to a school district using a BOCES employee, while also providing goods and other services to the same school district, there is an increased risk that a claims auditor's objectivity and independence could be compromised.

Note 2

When documentation is not maintained, it cannot be made available to a claims auditor for review. As stated in the report, District officials had no documentation to support all the rates charged on 98 invoices totaling approximately \$836,000.

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 GST BOCES employees to obtain an understanding of the claims audit process and to obtain any related policies and procedures.
- Using a computerized Excel function, we randomly selected 50 non-payroll disbursements and judgmentally selected all Genesee Valley BOCES disbursements from July 1, 2020 through March 11, 2022 to determine whether the claims auditor had all necessary supporting documentation to perform a proper claims audit.
- We reviewed Board meeting minutes from July 1, 2020 through February 28, 2022 to determine whether the Board received a monthly claims auditor report and audited the Genesee Valley BOCES claims that included GST BOCES charges.
- For the claims that were lacking adequate supporting documentation, we requested and reviewed additional supporting documentation to determine whether rates paid were supported and accurate.
- We requested and reviewed GST BOCES service guide, GST BOCES Business Office CO-SER² support and job descriptions to gain an understanding of GST BOCES' claims auditing function.

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

² A CO-SER is an approved cooperative agreement to establish a shared service for one year between a BOCES and two or more school districts. Services are provided at the request of component school districts to respond to an established need, and must be shared. Services should be cost-efficient and effective. Not all BOCES services generate aid; however, all general fund services must have an approved CO-SER.

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

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Contact

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