

Oswego County Board of Cooperative Educational Services

Claims Auditing

JULY 2022



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

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Report Highlights

Oswego County Board of Cooperative Educational Services

Audit Objective

Determine whether Oswego County Board of Cooperative Educational Services' (BOCES) claims were audited and approved prior to payment and were for appropriate BOCES purposes.

Key Findings

Claims we reviewed were supported and for appropriate BOCES purposes. However, all claims were not audited or approved prior to payment. As a result, BOCES has a higher risk of inaccurate or improper payments occurring.

- We reviewed 1,790 claims, totaling \$16.5 million, to determine whether they were audited and approved prior to payment and found that 1,393 claims (78 percent), totaling \$6.4 million, were paid prior to the claims auditor's approval.
- Based on dates transactions cleared the bank, 195 additional claims, totaling \$469,800, were likely paid prior to the claims auditor's approval.
- We reviewed 114 claims, totaling \$2.1 million, and found they were supported by adequate documentation and for appropriate purposes.

Key Recommendation

- Ensure signed checks are printed and Automatic Clearing House (ACH) and electronic payments are made only after the claims auditor has audited and approved the claims.

District officials agreed with our recommendation and indicated they have initiated corrective action.

Background

BOCES is composed of nine component school districts. BOCES is governed by a nine-member Board of Education (Board), with a member elected by each of the component school districts.

The Board is responsible for the general management and oversight of BOCES' financial and educational affairs. The District Superintendent is the chief executive officer and is responsible, along with other administrative staff, for the day-to-day management under the Board's direction.

The Board delegated its claims auditing powers and duties to a claims auditor who is also an employee in the Human Resources Office. The Coordinator of Business Administration (Coordinator) oversees the Business Office staff, including accounts payable clerks and the Treasurer, who are responsible for processing and paying claims.

Quick Facts 2020-21 Claims Paid

Checks	3,442
Total	\$60.5 million
ACH/Electronic Method	1,376
Total	\$5.3 million

Audit Period

July 1, 2020 – February 15, 2022

Claims Auditing

What Is an Effective Claims Audit Process?

New York State Education Law (Education Law) Sections 1950(4)(k), 1709 and 1724, require 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. The Education Law, however, provides that a board may, by resolution authorize payment in advance of audit for claims for public utility services (electric, gas, water, sewer and telephone), postage, freight and express charges. Payments made in advance of the audit of claims process should be audited as soon as possible after payment.

An effective claims processing system ensures that every claim against BOCES is subjected to an independent, thorough and deliberate review. It further ensures that each claim contains enough supporting documentation to determine whether it complies with statutory requirements and BOCES policies and that the amounts claimed represent actual and necessary BOCES expenditures.

In addition, computer-signed checks should be printed only after claims are audited and approved for payment and a warrant or the approved claims are provided to the treasurer authorizing and directing the treasurer to pay the claimant. Furthermore, if claims are paid by non-check disbursements, such as ACH payments,¹ these disbursements should only be made after the claims are audited and approved for payment.

Claims Were Frequently Audited After Payments Were Made

BOCES paid claims by check, ACH payment and occasionally by other electronic payments. An accounts payable clerk (clerk) processed checks and ACH payments twice a month, and additional check runs (called demand checks) as needed throughout the month. The Treasurer authorized the printing of checks and processing of the ACH payments by entering a password into the computerized accounting system. The clerk then generated the signed checks and scheduled the payment date for ACH payments transactions before receiving approval from the claims auditor to make the payments.

The clerk printed copies of the checks and ACHs (similar to a check copy) and attached them to the respective claims packet, which includes supporting documentation for the payment (e.g., invoices, purchase orders, packing slips). The claims packets were then submitted to the claims auditor for review. The claims auditor initialed and dated each claim to document approval.

An effective claims processing system ensures that every claim against BOCES is subjected to an independent, thorough and deliberate review.

¹ An ACH payment is a type of electronic payment that can be used to pay bills or transfer money between bank accounts. Money is transferred from one bank account to another through the Automated Clearing House (ACH) network.

The Coordinator initially told us it was their practice to hold checks in the safe until the claims auditor approved the related claims. However, after we discussed our initial audit test results with the Coordinator, she had further discussions with the clerk and told us that BOCES changed its procedure for holding checks in March 2020 due to the COVID-19 pandemic. Because staff were working remotely and went into the office on an intermittent basis, claim checks were often mailed prior to the claims auditor's review. Although business office staff returned to working regularly in the office in March 2021, the Coordinator told us they continued to release payments prior to the claims audit until late August 2021. The Coordinator was not aware that checks continued to be released prior to claims audit until we inquired during our audit.

While the pandemic caused significant disruptions to BOCES operations, particularly during the early stages, the claims auditor's audit of claims and authorization to make payments is a critical component of BOCES' internal controls for cash disbursements that should have been in place during our audit period, even while employees were working remotely.

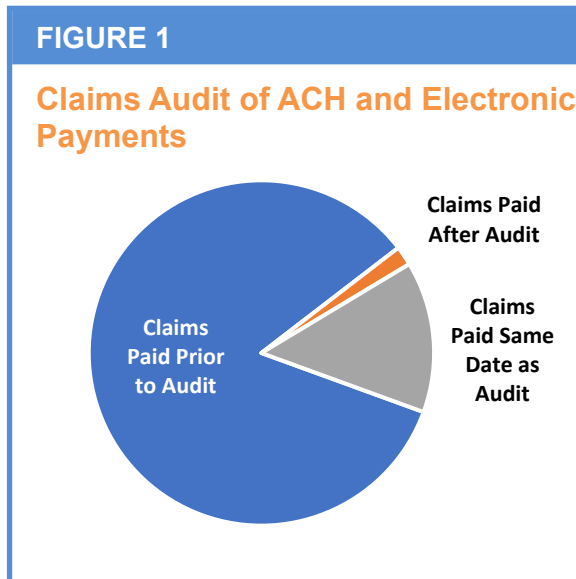
Additionally, we found no evidence that the Board had adopted a resolution, authorizing payments in advance of audit for public utility services, postage, freight or express charges. Therefore, all claims were required to be audited and approved by the claims auditor before they were paid. In November 2021, the Board passed a resolution to update its policy on the claims auditor's duties to allow these types of claims to be paid prior to the claims auditor's review.

We tested 1,790 claims, totaling \$16.5 million, that were paid during the 2020-21 fiscal year by ACH, electronic payment or check to determine whether they were audited and approved by the claims auditor prior to payment. We found that 1,393 claims (78 percent), totaling \$6.4 million, were paid prior to the claims audit, and the payments for another 195 claims, totaling \$469,800, were likely released before the claims were approved.

ACH and Electronic Payments – BOCES paid vendors for various goods and services and made employee expenditure reimbursements through ACH and other electronic payments. We reviewed all 50 ACH batch² payments and four electronic payments of 1,376 claims. We found that only 25 claims (one general fund and one special aid fund batch) were audited prior to the day the ACH and electronic payments were made (Figure 1).

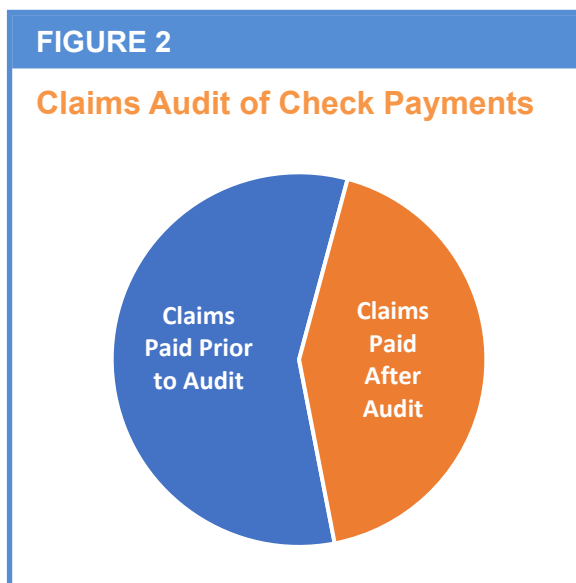
² A batch is a group of individual claims that are processed together. BOCES processed general fund and special aid fund claims in separate batches.

Thirty-eight batch payments totaling \$4.7 million (1,156 claims) were withdrawn from BOCES' bank account prior to their respective claims audit date. Ten ACH batch payments, totaling \$469,800 (195 claims), cleared the bank on the same day as the claims audit, so it is likely these payments were initiated before the claims auditor approved them. Claims audit for the four electronic payments ranged from 10 to 26 days after the funds were transferred.



The claims were paid before the claims audit because the Treasurer allowed the clerk to process the associated ACH and electronic payments without first receiving authorization from the claims auditor to pay the claims.

Check Payments – We reviewed 414 claims paid by checks, totaling \$11.3 million, during the months of September and December of 2020 and April 2021. Based on the dates the checks cleared the bank and our discussions with the clerk and the Coordinator, we determined that 237 claims (57 percent), totaling \$1.7 million, were paid prior to being audited and approved by the claims auditor (Figure 2).



Claims Tested Were Adequately Supported and for Appropriate Purposes

We reviewed 114 claims, totaling approximately \$2.1 million, to determine whether they were adequately supported by sufficient documentation, were for appropriate purposes and included evidence that the goods or services were received, were

mathematically accurate and in accordance with policies. Our testing found no significant exceptions with these issues.

However, when claims are paid before the claims auditor's review and approval, there is an increased risk that inaccurate or improper payments could occur.

What Do We Recommend?

The Coordinator and Treasurer should:

1. Ensure signed checks are printed and ACH and electronic payments are made only after the claims auditor has audited and approved the claims, except those claims that are allowed to be paid prior to audit by Education Law and BOCES policy.

Appendix A: Response From BOCES Officials



District Office

CHRISTOPHER J. TODD

District Superintendent

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June 2, 2022

Dear Sir/Madam:

Please accept this letter as the Oswego County BOCES official response and corrective action plan to the Comptroller's Preliminary Draft Findings report for the period covering July 1, 2020 – February 15, 2022.

The objective of the review was to determine whether Oswego County BOCES claims were audited and approved prior to payment and were for appropriate BOCES purposes.

The audit identified that not all claims were audited or approved prior to payment being released. However, we are pleased the audit also confirmed that all claims were adequately supported by sufficient documentation, were for appropriate purposes, included evidence that the goods or services were received, claims were mathematically accurate in accordance with policies, and no improper payments were identified.

Oswego County BOCES agrees with the findings in the audit report. However, it is worth explaining that prior to the onset of COVID shutdowns, processes noted in the recommendation were fully implemented. Claims were always audited by the Internal Claims Auditor prior to payment with very few exceptions (i.e.: when the timeliness of payment necessitated immediate release). Even in those cases claims review occurred within a day, and payments released only in situations where vendor relationships were ongoing, and funds could be recalled in the event of any findings.

The advent of COVID and closing of schools gave rise to a process of releasing payments prior to internal claims due to unique challenges of staff working remotely. During this time, Business Office staff reported to the office only to print checks and prepare packets for the Claims Auditor, who was also working remotely. In deference to the audit finding, however, the regular practice of audit prior to payment could have been more carefully adjusted during that time and should have been reinstated in a timelier fashion when staff were able to return more regularly to the office.

Please find below the Corrective Action Plan for the recommendation provided within the report:

Recommendation – The Coordinator and Treasurer should ensure signed checks are printed and ACH and electronic payments are made only after the claims auditor has audited and approved the claims, except those claims that are allowed to be paid prior to audit by Education Law and BOCES policy.

A BOARD OF COOPERATIVE EDUCATIONAL SERVICES

179 County Route 64, Mexico, NY 13114

Christopher J. Todd, District Superintendent/Executive Officer

- i) **Implementation Plan of Action** – The following items were identified to correct the finding and implement the recommendation:
 - a. Amend Board policy to authorize release of certain payments prior to claims audit, as allowed by Education Law.
 - b. Reinstate the process of having all claims, including ACH payments, reviewed and approved by the Internal Claims Auditor prior to releasing funds.
- ii) **Implementation Date** – All action items were completed immediately following verbal notice received from the OSC audit team during their audit field work and prior to their exit as follows:
 - a. The Board policy amendment was adopted by the Board of Education at their November 17, 2021 meeting.
 - b. The internal claims process of auditing claims, including ACH payments, prior to release of funds was fully reinstated by October 1, 2021.
- iii) **Parties Responsible for Implementation** – Board of Education, Assistant Superintendent for Administrative Services, Treasurer, and Coordinator of Business Administration were responsible for implementation of the corrective actions.

The BOCES would like to recognize the courteous and professional way the auditors conducted their review as well as the thoroughness of their audit process. We found the results of the audit and the recommendations provided in the report to be of value and took immediate steps to implement them.

The BOCES appreciates the Comptroller’s efforts to review functions and offer recommendations for procedural improvement. This audit report is viewed as a helpful tool in maintaining a high level of accountability to our stakeholders. We appreciate the opportunity to work with the Comptroller’s Office to continuously improve our financial practices.

Sincerely,

John Shelmidine
Board President

CJT/ma

Christopher J. Todd
District Superintendent

Appendix B: 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 BOCES officials and staff, and reviewed Board meeting minutes and policies to gain an understanding of the claims audit and approval process and relevant policies and procedures.
- We reviewed all 50 ACH batch payments made during 2020-21 to determine whether the related claims were audited and approved prior to payment. These 50 ACH batches paid 1,372 general and special aid fund claims totaling \$5.1 million.
- We reviewed all four electronic payments of claims made during 2020-21 (totaling \$151,350) to determine whether the claims were audited and approved prior to payment.
- We examined demand checks (checks issued outside of the normal twice a month payment schedule) for all warrant batches for September 2020 and December 2020 and the first batch for April 2021 to determine whether the related claims were audited and approved prior to payment. We also examined the non-demand check payments for one general fund warrant and one special aid fund warrant batch in September 2020, December 2020 and April 2021 to determine whether the related claims were audited and approved prior to payment. Our sample included 414 check payments for claims totaling \$11.3 million.
- Using a random number generator, we selected two months (September and December 2020) and used our professional judgment to examine a sample of 50 claims (34 checks and 16 ACH payments), totaling \$2 million. We reviewed the claims to determine whether they were supported by adequate invoices and documentation, included evidence that the goods or services were received and were for legitimate purposes, mathematically accurate and in accordance with policies.
- We used our professional judgment to select a sample of 64 claims totaling \$51,817 and we examined the claims for the same parameters as noted in the previous paragraph. We selected claims that posed a higher risk for being inappropriate BOCES expenditures, including payments to key officials/employees, unrecognized vendor names and purchases from vendors that were potentially unrelated to BOCES operations.

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 to BOCES' website for public review.

Appendix C: 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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