

New York State Comptroller
THOMAS P. DiNAPOLI



Bradford Central School District

Claims Auditor

2022M-157 | January 2023

Division of Local Government and School Accountability

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Report Highlights

Bradford Central School District

Audit Objective

Determine whether the Bradford 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 74 claims totaling approximately \$3 million and found that:

- 70 claims totaling \$2.96 million did not contain documentation for the claims auditor to perform a proper audit.
- The claims auditor, who is an employee of the Greater Southern Tier Board of Cooperative Educational Services (GST BOCES), inappropriately audited and approved 25 claims for the GST BOCES service charges totaling approximately \$2.4 million. This compromised the claims auditor's objectivity and independence. 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 for GST BOCES service charges.

District officials agreed with our recommendations and indicated they will take corrective action.

Background

The District serves the Towns of Bath, Bradford, Urbana and Wayne in Steuben County and the Towns of Orange and Tyrone in Schuyler County.

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

The Superintendent of Schools 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 District contracts with GST BOCES for various central business office (CBO) services, such as purchasing and payroll and accounts payable processing. The Business Administrator and Board-appointed purchasing agent are GST BOCES CBO employees.

On July 7, 2021, the Board delegated its claims auditing powers and duties to a GST BOCES CBO employee through a contract.

Quick Facts

July 2020 – March 2022

Claims Reviewed by Claims Auditor	1,550
Dollar Value	\$8.3 million
Claims We Reviewed	74
Dollar Value	\$3 million

Audit Period

July 1, 2020 – August 9, 2022

Claims Audit Process

What Is an Effective Claims Audit Process?

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 audit process also ensures compliance with New York State Education Law (Education Law) which requires, with the exception of officer or employee compensation and debt service, a school district board to audit all claims before they are paid¹ (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 from 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.

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 and/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.

¹ Education Law, Section 1724 allows a board, by resolution, to authorize payment in advance of audit for public utility services (electric, gas, water, sewer and telephone), postage, and freight and express charges. The claims for such prepayments should be audited as soon as possible after payment and included on the next warrant (list of claims scheduled for payment) as prepaid.

The Claims Auditor Did Not Properly Audit Claims

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.

Although the claims auditor provided a 21-step claims audit plan, that includes ensuring a contract is on file supporting the amount to be paid and expenditures requiring bids are supported or expenditures not requiring bids followed the District's policy requiring written and verbal quotes, she did not ask for these items if they were not attached to the claim. Further, the accounts payable clerk stated that if the quotes and bids were not attached to the claim, they were unavailable.

After auditing the claims packets, the claims auditor provides a warrant release to the accounts payable clerk, Treasurer, and Deputy Treasurer with any checks identified with issues and those that 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 Treasurer, who includes it with her monthly Treasurer's report to the Board.

We selected 74 claims to review but reviewed 73 claims, consisting of 329 invoices, totaling approximately \$2.97 million. GST BOCES was paid for one claim totaling \$3,377 but the claim could not be located by the GST BOCES CBO and thus was not reviewed. Four claims totaling \$8,099 were properly audited and approved. The remaining 69 claims totaling \$2.96 million reviewed and approved by the claims auditor lacked sufficient supporting documentation for all charges on the invoices, such as approved bids, quotes and contracts because the purchasing agent did not always provide them to the accounts payable clerk for the claims packets and the claims auditor did not request them if not attached. As a result, the claims auditor did not perform a proper claims audit of 70 claims totaling \$2.96 million because she could not ensure that the amounts approved for payment were appropriate.

After multiple requests to District officials and GST BOCES CBO employees for additional supporting documentation, we were able to verify the correct rates were charged for 61 of the 330 invoices totaling approximately \$344,000. For 222 invoices, the District had partial documentation to support some of the charges

As a result, the claims auditor did not perform a proper claims audit. ...

on the invoices totaling approximately \$1.9 million, but not charges totaling approximately \$330,000. Finally, the District had no documentation to support the rates charged on 47 invoices totaling approximately \$411,000.

We also found that the District overpaid three vendors totaling \$340 and underpaid three vendors by \$803 for goods and services. Although these amounts are immaterial, the fact that we found issues with payments to six vendors in our limited testing increases the risk that other vendors could also have been inappropriately paid.

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 GST BOCES Claims

The District is a component school district of GST BOCES and contracted with GST BOCES for CBO services including claims auditing, purchasing, payroll, accounting, cooperative bidding, tax collection, business administrator and accounts payable services. The claims auditor inappropriately audited and approved all 25 GST BOCES claims totaling approximately \$2.4 million, instead of the Board.

When a BOCES directly provides claims auditing services to a school district using a BOCES employee while providing goods and other services to the same school district, the arrangement puts the individual serving as claims auditor in the position of approving significant claims submitted by BOCES, the individual's employer. Therefore, the claims auditor's objectivity and independence is 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 and address the underpayments identified in this report.

The Board Should:

3. Audit and approve GST BOCES claims for goods and services.

Appendix A: Response From District Officials



December 8, 2022

Mr. Edward V. Grant
Chief Examiner
16 West Main Street Suite 522
Rochester, NY 12236

Dear Mr. Grant,

The purpose of this correspondence is to acknowledge that the Bradford Central School District has received a draft copy of the audit conducted by the New York State Comptroller's Office regarding proper claims auditing practices and procedures. We agree with your findings and plan to implement procedural safeguards based upon the recommendations provided.

The Bradford Central School District would like to thank the New York State Comptroller's Office for their high level of professionalism and the thorough work done while conducting their review of our District.

Yours in education,

John R. Marshall
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 District 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 GST BOCES disbursements from July 1, 2020 through March 17, 2022 to determine whether the claims auditor had all necessary supporting documentation to perform a proper audit of claims.
- We reviewed Board meeting minutes from July 1, 2020 through March 15, 2022 to determine whether the Board received a monthly claims auditor report and audited the GST BOCES claims.
- 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.

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.

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 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

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