

Camden Central School District

Claims Audit Process

AUGUST 2019



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

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Report Highlights

Camden Central School District

Audit Objective

Determine whether claims were adequately documented, for appropriate purposes and properly audited and approved before payment.

Key Findings

- We reviewed 91 claims totaling \$1.3 million (7 percent) paid during the audit period and found they were generally supported by adequate documentation and for proper purposes. However, 45 claims totaling \$471,138 were paid before the claims auditor’s approval and the claims auditor did not audit 10 scholarship payments totaling \$4,750.

The claims auditor did not:

- Audit and approve 478 other claims totaling \$945,478 before payment.
- Report the results of the claims auditing process directly to the Board.

Key Recommendations

- Ensure no claims, other than those allowed under law, are paid prior to the claims auditor’s audit and approval.
- Ensure all claims for scholarship payments are audited and approved by the claims auditor before they are paid.
- Ensure the claims auditor reports to the Board of Education.

District officials agreed with our recommendations and have initiated or indicated they planned to initiate corrective action.

Background

The Camden Central School District (District) serves the Town of Osceola in Lewis County, the Towns of Annsville, Camden, Florence, Lee and Vienna in Oneida County, and the Town of Constantia in Oswego County.

The seven-member Board of Education (Board) is responsible for the general management and control of financial and educational affairs. The Superintendent of Schools is the chief executive officer, and, along with the Assistant Superintendent for Business (Business Administrator), is responsible for day-to-day management under the Board’s direction. The Treasurer is responsible for disbursing District funds.

The Board delegated its claims auditing powers and duties to a claims auditor.

Quick Facts

Employees	418
Enrollment	2,107
2018-19 General Fund Appropriations	\$52.2 million
Claims Paid for the Audit Period	\$18.8 million

Audit Period

July 1, 2017 – February 28, 2019

Claims Audit Process

What is an Effective Claims Audit Process?

New York State Education Law requires a board to audit all claims before they are paid¹ by the treasurer or appoint a claims auditor² to assume the board's powers and duties to examine and approve or disapprove claims. An effective claims audit process ensures that every claim against the district is subjected to an independent, thorough and deliberate review and that each claim contains adequate supporting documentation to determine whether the amounts claimed comply with statutory requirements and district policies and represent actual and necessary expenditures.

The claims auditor should audit every claim against the district before payment to determine whether the claim is properly itemized and supported and whether the 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.

Additionally, the claims auditor should report the results of the claims auditing process directly to the board. Reporting the results of the claims audit is necessary so that, if a problem arises that can be addressed within the powers and duties of the board, the problem and its eventual resolution can be discussed with the board.

The Claims Auditor Did Not Audit All Claims Before Payment

District officials need to improve their claims audit process to ensure that the claims auditor properly audits and approves all claims before payment. An accounts payable clerk (clerk) in the business office is responsible for entering claims into the computerized accounting system. The Business Administrator reviews and approves the claims, and before payment by the Treasurer, the clerk informs the claims auditor that claims are ready for review.³

¹ New York State Education Law (Education Law), Section 1724 provides an exception to the claims audit requirement for compensation paid to officers or employees and debt services. It also 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.

² Education Law, Section 1709

³ Approximately once a week

The clerk also sends a report showing pending claims to the Treasurer, who authorizes the checks to be printed and signed and the warrant to be generated. Checks are sent out the same day they are printed. However, the claims auditor told us that he may not always be available to review the claims when contacted by the clerk. He sometimes audits the claims at a later date. In addition, on some occasions, the claims auditor may not review an entire batch of claims in one review session. As a result, District officials pay some claims before audit and approval by the claims auditor.

The claims auditor reviews each claim to determine whether it is for a valid purpose, includes required signatures of approval and evidence of receiving, is properly supported and whether the claim information agrees to the check stub and warrant. The claims auditor told us that sometimes he audits and approves the claims before the checks and warrants are generated and later compares the approved claims with the check stubs and warrants. In other instances, the claims auditor told us that he approves the claim at the same time he reviews and approves the warrant – after the claims have been paid.

After completing his review, the claims auditor signs each individual claim along with the corresponding warrant, certifying the claims to be paid despite some payments having already been disbursed before his review.

Although the District has a policy that requires the claims auditor to report the results of the claims audit to the Board, the claims auditor was unaware of the policy and did not provide any reports to the Board. The claims auditor told us that he follows up with the clerk when encountering any issues or concerns with claims.

We reviewed 91 claims totaling \$1.3 million (7 percent) during our audit period⁴ to determine whether the corresponding claims for these disbursements were supported by adequate documentation, for appropriate purposes and audited and approved before payment. Except for minor instances, which we discussed with officials, these claims were generally supported by adequate invoices and documentation, included evidence that the goods or services were received and were for legitimate purposes in accordance with District policies.

However, we identified 55 claims (60 percent), totaling \$475,888 that were either paid before audit or included no evidence of audit. Of these claims, 45 totaling \$471,138 were paid before audit and consisted of disbursements for various purposes including payments for student tuition (\$209,000), education equipment (\$165,000), various miscellaneous services, cafeteria inventory and Medicare reimbursements. As part of our audit testing, we reviewed all 16 scholarship payments disbursed during our audit period and found that claims for 10 of these payments (63 percent) totaling \$4,750 had no evidence of audit.

⁴ See Appendix B for information on our sampling methodology.

We also reviewed 15 warrants that contained 621 claims totaling \$1.9 million (10 percent) and compared the date of claims audit, as evidenced by the claims auditor's signature on each corresponding claim, to the check date to determine whether claims were audited before payment. We found that 478 claims (77 percent) totaling \$945,478 were paid before audit.

When claims are paid before or without an independent review and approval by the claims auditor, there is an increased risk that inaccurate or improper payments could occur.

What Do We Recommend?

District officials should:

1. Ensure no claims, other than those allowed under law, are paid before the claims auditor's audit and approval.
2. Ensure all claims for scholarship payments are audited and approved by the claims auditor before they are paid.

The claims auditor should:

3. Report the results of the claims audit to the Board as required by District policy.

Appendix A: Response From District Officials

CAMDEN CENTRAL SCHOOLS

August 13, 2019

Dr. Ravo Root
Superintendent of Schools

Ms. Rebecca Wilcox, Chief Examiner
Office of the State Comptroller
State Office Building, Room 409
333E. Washington Street
Syracuse, New York 13202-1428

Reference: *Combined Audit Response Letter and Corrective Action Plan
Report of Examination No 2019M-124*

Dear Ms. Wilcox:

The following is the Camden Central School District's combined Audit Response Letter and Corrective Action Plan to your office's Report of Examination No 2019M-12.

Response to Audit:

On behalf of the Board of Education I want to thank you for your continued support of all of our District's stakeholders by way of your comprehensive and consistent auditing services. Our District has the upmost appreciation for compliance in our government operation and to that end your audit improves and fortifies our efforts.

In regards to this current Audit and Report of Examination No 2019M-124 we do recognize opportunities your examiners have identified for improved procedures for the district claims process. We know that it is extremely important to assure that all claims are properly warranted for payment and we do know that there are many steps, checks and balances that need to be implemented to assure that claims are properly paid. While your audit stated that the claims you reviewed "were generally supported by adequate invoices and documentation, included evidence that the goods or services were received and were for legitimate purposes in accordance with District policies", you did however provide three recommendations to enhance our claims process. We are in agreement with your findings and recommendations and conclude that there are reasonable means for us to address those findings and implement the recommendations. The next portion of this letter speaks to how we will address those findings and recommendations. We have already begun implementing some of these opportunities for improvement as we will note as we present this Corrective Action Plan.

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Corrective Action Plan

Recommendation #1 – Ensure no claims, other than those allowed under law, are paid before the Claims Auditor’s audit and approval.

The District Office Administration in coordination with the Board of Education is in the process of reassigning the coordination of the work schedule for the Claims Auditor from the business office to the accounts payable office. The reassignment of the work schedule will allow for more expediently and timely scheduling of the Claims Auditor to match to the departments timing needs. We will continue to fund and support only a part-time Claims Auditor to represent the Board of Education, however the reassignment of work schedule from the business office to the accounts payable office may require more frequent visits to assure timeliness. We anticipate with this scheduling change that claims for the most part should be processed in a manner of proper sequencing for payment.

Recommendation #2 - Ensure all claims for scholarship payments are audited and approved by the Claims Auditor before they are paid.

The Business office has already reviewed the requirement for claims auditing of scholarship payments with the Treasurer’s office, the accounts payable department, and the Claims Auditor. It was not the practice to audit these scholarships payments in the past. While we are confident that all past payments were legitimate and accurate, going forward we will incorporate any future scholarship payments into the claims audit complete process including timely claim audit review, initial implementation completed June 30, 2019.

Recommendation #3 - Report the results of the Claims Audit to the Board as required by District Policy.

The Board of Education will be developing a schedule for auditor claims reporting out at their regular Board of Education meetings. The Board will charge the Internal Audit Committee comprised of three Board members with developing the schedule for reporting to the full Board. It is anticipated that it will be built around frequency, quantity and types of findings. The Claims Auditor will report out at a minimum of two times per school year.

This concludes the Combined Audit Response Letter and Corrective Action Plan which will be formally adopted at the regular Board of Education meeting on September10, 2019.

Again thank you for your review, guidance, and support in the important area of school financial operations now and in the future.

Respectfully,

***Dr. Ravo Root, Superintendent
Camden Central School District***

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 assessed internal controls over the claims audit process by reviewing policies and procedures, reviewing Board minutes and interviewing officials to gain an understanding of the claims audit process.
- We randomly selected 50 claims totaling \$519,249 to determine whether the claims were for proper purposes, adequately supported, contained evidence that the goods or services were actually received, were in compliance with Board-adopted policies and were audited and approved before payment.
- We used our professional judgment to select an additional sample of 41 claims totaling \$749,877 paid during the audit period and reviewed them for the same attributes as our random sample. We selected claims that posed a higher risk for inappropriate expenditures or lack of audit, such as payments to Board members, other District officials, credit card transactions, unrecognized vendors, scholarship payments and large dollar amounts.
- We used our professional judgment to select 15 warrants for the four main operating funds (general, school lunch, special aid and capital), containing 621 claims totaling \$1.9 million, and reviewed the corresponding claim and check dates to identify whether the claims auditor audited and approved claims before payment.

We conducted this performance audit in accordance with GAGAS (generally accepted government auditing standards). 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 relevant population size and the sample selected for examination.

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 2116-1(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 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. We encourage the Board to make the CAP available for public review in the District Clerk's office.

Appendix C: Resources and Services

Regional Office Directory

www.osc.state.ny.us/localgov/regional_directory.pdf

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

www.osc.state.ny.us/localgov/costsavings/index.htm

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

www.osc.state.ny.us/localgov/fiscalmonitoring/index.htm

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

www.osc.state.ny.us/localgov/pubs/listacctg.htm#lmgm

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

www.osc.state.ny.us/localgov/planbudget/index.htm

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

www.osc.state.ny.us/localgov/pubs/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/localgov/finreporting/index.htm

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

www.osc.state.ny.us/localgov/researchpubs/index.htm

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

www.osc.state.ny.us/localgov/academy/index.htm

Contact

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