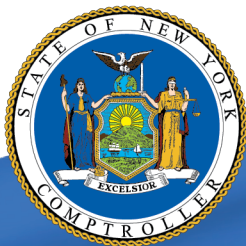


Canton Central School District

Claims Audit Process

NOVEMBER 2018



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

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Report Highlights

Canton Central School District

Audit Objective

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

Key Findings

- The claims auditor did not review the detailed, supporting documentation for all 17 health insurance claims paid during the audit period totaling over \$8.1 million. Although the Business Manager reviewed detailed support, the claims auditor was required to conduct an independent and thorough audit of the claims.
- The claims auditor did not audit and approve any of the 38 scholarship payments paid totaling \$9,485 for 2016-17. Although the scholarship committee reviewed and approved the awards, the claims auditor was required to audit and approve the scholarship payments.

Key Recommendations

The claims auditor should:

- Review detailed, supporting documentation for all health insurance claims.
- Audit and approve all scholarship payments to ensure they meet trust requirements.

District officials agreed with our findings and indicated they plan to initiate corrective action.

Background

The Canton Central School District (District) serves the Towns of Canton, DeKalb, Lisbon, Oswegatchie, Pierrepont and Potsdam in St Lawrence County.

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

The Board has delegated its claims auditing responsibility to a claims auditor.

Quick Facts

Employees	235
Enrollment	1,302
2017-18 General Fund Budgeted Appropriations	\$29 million
General, Special Aid, School Food Service and Capital Projects Voucher Payments for the Audit Period	\$27.2 million

Audit Period

July 1, 2016 – November 24, 2017

Claims Auditing

What is an Effective Claims Audit Process?

New York State Education Law (Education Law)¹ requires a board to audit all claims² before they are paid³ or to appoint a claims auditor 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 a district is subjected to an independent, thorough and deliberate review and contains adequate supporting documentation to determine whether it complies with statutory requirements and district policies and that the amounts claimed represent actual and necessary expenditures. In addition, the claims auditor should determine whether the claims are properly itemized and supported and whether the district received the goods or services described on each claim. Furthermore, there are no exceptions to a claims audit provided for in Education Law⁴ for claims against money held by a board in trust, such as gifts for scholarships. As such, payments of scholarship trust money are subject to the audit of claim requirements and the claims auditor should determine if payments from a scholarship or other trust are properly documented, supported and meet trust requirements.

The Claims Auditor Did Not Properly Audit all Claims of the District

The District needs to improve its claims audit process to help ensure all claims are adequately documented and properly audited and approved before payment. The Board appointed a claims auditor to assume its powers and duties to examine and approve or disapprove claims. The accounts payable clerk prepares claim packets, which are reviewed by the Business Manager before being submitted to the claims auditor. After auditing the claims, the claims auditor signs a warrant (list of claims) that provides the Treasurer with written authorization to pay the approved claims.

Scholarship payments do not go through the claims audit process. Gifts or bequests of cash are held in trust by the District for scholarship awards and the Business Office also receives cash gifts annually for scholarship payments. A scholarship committee,⁵ with oversight by the guidance office, is responsible for selecting students to receive scholarship awards. The guidance office provides the selection criteria, student applications and essays, and any other applicable information for the scholarship committee to review. The guidance office secretary

1 Education Law, Section 1724 and Section 1709

2 Except compensation for services and debt service

3 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 amounts.

4 Education Law, Section 1724

5 Consisting of teachers, department heads, guidance counselors and the high school principal (who is a non-voting member and facilitator).

submits the list of scholarship awards to the Business Office and the Business Manager reviews the list of awards and compares them to the available funds for scholarships. Scholarship payments are processed by the District Treasurer who provides the check payments to the guidance office secretary to compare to the list of scholarship awards before the checks are handed out at the District's graduation ceremony. The claims auditor told us she does not audit the scholarship payments or review the supporting documentation and trust requirements.

We reviewed 104 claims totaling \$8,656,796⁶ (32 percent) paid during our audit period. We found that 87 of the claims totaling \$503,336 were audited and approved before payment, included evidence that goods and services were received, and were for legitimate District purposes and in accordance with District policies. Those claims were generally supported by adequate invoices and documentation.

However, this did not occur for 17 claims for health insurance claims paid during our audit period totaling \$8,153,460 because the claims auditor did not review the detailed, supporting documentation. Instead, a summary page with the total of monthly insurance invoices was presented to the claims auditor for audit and approval. The detailed support, which indicated the individuals covered and the type of coverage, was reviewed by the Business Manager prior to providing the claims packet to the claims auditor. However, the claims auditor was required to conduct an independent and thorough audit of the claim and the complete invoice in order to properly approve the payment and to help ensure appropriate fees are charged for those individuals eligible to receive health insurance.

Also, we identified 38 scholarship disbursements totaling \$9,485 for 2016-17. We reviewed 13 payments totaling \$7,800 (82 percent). All of the awards we reviewed were approved by the scholarship committee, adequately supported and in compliance with trust requirements, except for one payment for \$100 that should have been \$300. Trust requirements were updated in May 2016 to increase the award amount from \$100 to \$300 beginning June 2017, and although the scholarship committee approved the award amount for \$300, the payment was processed incorrectly. However, none of the scholarship payments were audited and approved by the claims auditor. Without an adequate audit of scholarship payments, there is an increased risk for inaccurate or improper payments to occur.

⁶ Includes 17 health insurance claims totaling \$8,153,460. See Appendix B for sample methodology.

What Do We Recommend?

The Claims Auditor should:

1. Review the detailed, supporting documentation for all health insurance claims as part of the audit process.
2. Audit and approve all scholarship payments to ensure they are properly documented, supported and meet trust requirements.

Appendix A: Response From District Officials

CANTON CENTRAL SCHOOL DISTRICT

99 State Street
Canton, NY 13617



October 29, 2018

Division of Local Government and School Accountability
Rebecca Wilcox, Chief Examiner
State Office Building, Room 409
333 E. Washington Street
Syracuse, NY 13202-1428

Re: Audit Response

Dear Chief Examiner Wilcox:

Canton Central School District has received and reviewed the draft Report of Examination, 2018M-186. The audit objective was to determine whether claims were adequately documented, were for appropriate purposes, were properly audited, and approved prior to payment from July 1, 2016 – November 24, 2017.

Canton Central agrees with the 2 audit findings and is working to implement immediate corrective action to improve our claim process in these areas.

In closing, the district would like to commend the OSC Auditor for her professionalism and thoroughness during this process. We appreciate the recommendations and look forward to making improvements to further strengthen our controls.

Ronald P. Burke, Superintendent of Schools

Keith Rosser, School Board Vice President

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 meeting minutes and interviewing officials to gain an understanding of the claims audit process.
- We selected a random test sample of 50 claims totaling \$865,005, using a computerized spreadsheet function, to assess whether the claims were for proper District 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 prior to payment.
- We judgmentally selected an additional sample of 54 claims totaling \$7,791,791 paid during the audit period and reviewed them for the same concerns as in our other test sample. We selected health insurance claims paid during our audit period.⁷ We also selected claims that posed a higher risk for inappropriate District expenditures, such as payments to Board members or other District officials and unrecognized vendors.
- We identified 38 scholarship disbursements totaling \$9,485. We selected a test sample including the 10 highest dollar amount scholarship payments totaling \$7,500 and a judgmental sample of two payments totaling \$200 because they were issued from a non-expendable trust and one payment totaling \$100 because we identified a discrepancy between the scholarship award list and the trust requirement.

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 size of the relevant population 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)

⁷ Our random sample included one health insurance claim totaling \$502,002 and we expanded our judgmental sample to include the remaining 16 health insurance claims totaling \$7,651,458.

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/lgli/pdf/cybersecurityguide.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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www.osc.state.ny.us/localgov/index.htm

Local Government and School Accountability Help Line: (866) 321-8503

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