

Lowville Academy and Central School District

Claims Audit Process

SEPTEMBER 2019



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

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Report Highlights

Lowville Academy and 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

- Because the claims auditor was also the Athletic Director, his audit of the claims for the athletic department was not independent.
- We reviewed 127 claims totaling almost \$752,500 and found that 59 claims totaling approximately \$68,000 had at least one exception, such as a lack of purchasing agent approval prior to purchase, evidence of oral quotes, departmental approval, evidence of receipt of goods or services, or itemized receipts or invoices.

Key Recommendations

- Ensure that the claims auditor is not directly involved in the purchasing function.
- Develop procedures to provide additional guidance on the claims auditor's responsibilities.

District officials agreed with our recommendations and indicated they had already addressed the findings and implemented the recommendations.

Background

The Lowville Academy and Central School District (District) serves the Towns of Denmark, Greig, Harrisburg, Lowville, Martinsburg, Montague, New Bremen, Pinckney, Turin, Watson and West Turin in Lewis 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 is the District's chief executive officer and is responsible, along with other administrative staff, for the District's day-to-day management, under the Board's direction. The Superintendent also serves as the purchasing agent.

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

Quick Facts

Employees	250
Enrollment	1,300
2018-19 General Fund Appropriations	\$27.6 million
General, Special Aid, School Food Service and Capital Projects Voucher Payments for the Audit Period	\$9.8 million

Audit Period

July 1, 2017 – January 31, 2019

Claims Auditing

What Is an Effective Claims Auditing Process?

New York State Education Law (Education Law)¹ requires a board to audit all claims before they are paid or to 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 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 legitimate and proper district expenditures.

A district can establish a policy for the duties of the claims auditor; however, that policy should specifically explain the claims auditor's duties and any responsibilities mentioned within the policy.

It is important for the claims auditor to determine whether the claims are properly itemized and supported and whether the district received the goods or services described on each claim by reviewing detailed receipts, invoices and receiving documentation. The claims auditor should compare the claim with the related purchase order to determine whether purchasing agent approval was obtained prior to purchasing and the amount billed agrees with the purchase order. An effective purchase order process helps control expenditures and ensure that purchases are properly authorized, that competitive pricing policies have been complied with and that adequate funds are available in the budget. A claims auditor should report any findings or deficiencies found during claims audit process to the board to assist the board in monitoring the district's procedures.

The Claims Auditor Did Not Have Well Defined Duties or Independence

The District has adopted an "Appointment and Duties of the Claims Auditor" policy. However, other than the directive to examine all claim forms with respect to the availability of funds within the appropriate codes and the adequacy of evidence to support the expenditure, the policy did not include specific procedures that explained the claims auditor's duties. The policy referred to requirements as may be established by Regulations of the Commissioner of Education and/or the State Comptroller, but it did not fully explain these responsibilities. In addition, the claims auditor is also the District's Athletic Director. In this capacity, he is involved in initiating purchases and approving invoices for the athletic department and then

¹ Education Law, Section 1724 provides an exception to the claims audit requirement for compensation paid to officers or employees and debt service. 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

auditing those claims. Consequently, he cannot provide an independent review and approval of the claims for his department. As a result, the effectiveness of the District's system of checks and balances is reduced and there is an increased risk that claims will not be adequately documented and properly audited and approved before payment.

Audited Claims Did Not Always Have Sufficient Documentation

We reviewed the corresponding claims for 100 random check disbursements totaling \$565,053 and 27 additional disbursements totaling \$187,417 that we considered higher risk. These claims included payments to Board members, the Superintendent, other District officials and their spouses, selected purchases of \$5,000 or more, and unrecognized vendor names. Although we did not find any inappropriate payments, we determined that 59 claims totaling \$68,166 had at least one exception.

- 46 claims totaling \$68,003 did not contain purchasing agent approval on or before the date of the invoice. Although the District's procurement policy provides that no purchases for goods and services will be made without first securing the approval from the purchasing agent, the Business Manager informed us that the District does not create purchase orders for day-to-day purchases for the buildings and grounds, transportation and school lunch departments. Instead, supervisors place those orders themselves and the purchasing agent signs off on invoices prior to payment. Some examples of goods and services purchased that lacked prior purchasing agent approval included:
 - Vehicle fuel purchases totaling \$11,034.
 - Floor stripper and protector totaling \$6,129.
 - Football equipment reconditioning totaling \$6,000.
 - Annual maintenance of bus routing software totaling \$3,350.

The failure to use purchase orders weakens the procurement and budget control processes. In addition, when the purchasing agent approves purchases after they have been made, the opportunity for review of price comparisons as part of the approval process is lost. For example, the claims for the floor stripper and protector and football equipment reconditioning did not contain evidence that District officials had obtained two oral quotes as required by the District's purchasing procedures.

- Three claims totaling \$7,045 lacked documentation of departmental approval in the claims voucher.
 - Floor stripper and protector totaling \$6,129.
 - Catering services provided by the school lunch fund totaling \$576.

-
- Online registration for two employees to take a training course totaling \$340.
 - 12 claims totaling \$4,769 lacked documentation of receipt of goods or services. Some examples include:
 - Postage for monthly newsletters totaling \$1,308.
 - Training course registrations for \$967.
 - Paper stock totaling \$807.
 - Four claims totaling \$738 lacked itemized receipts or invoices:
 - One claim for catering services requested by District staff and provided by the District's cafeteria totaling \$576. The only support was a monthly statement with dates and dollar amounts from the District's Cafeteria Director.
 - Three reimbursement claims to employees totaling \$162, which lacked itemized receipts or invoices showing the expenses they incurred (e.g., invoice showing cost of lifeguard certification, meal receipt).

Although we found exceptions during our review of claims, the claims auditor informed us that he has never had any issues to report to the Board.

Authorizing payments for claims that lack adequate supporting documentation increases the risk that inappropriate claims could be paid and that the budget control process could be weakened. Furthermore, because officials did not comply with the quotation requirements in District's purchasing policy, it could result in the District paying more than necessary for goods and services.

What Do We Recommend?

The Board and District officials should:

1. Develop procedures to define the duties of the claims auditor and provide guidance on the claims auditor's responsibilities.
2. Ensure purchase orders are used to document the prior authorization to make purchases.

The Board should:

3. Ensure the claims auditor is not directly involved in the purchasing function.
4. Require the claims auditor to provide it with periodic reports showing any deficiencies identified while auditing claims.

The claims auditor should:

5. Ensure that all claims contain sufficient supporting documentation and authorizations before approving them for payment.

Appendix A: Response From District Officials

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September 19, 2019

Rebecca A. Wilcox, CPA
Chief Examiner
Office of the State Comptroller
Local Government and School Accountability
333 East Washington Street
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Syracuse, NY 13202-1428

Dear Ms. Wilcox,

The District has received and reviewed the draft Report of Examination, 2019M-154, regarding our Claims Audit Process.

We do recognize opportunities your examiner has identified for improved procedures for the district's claims process. We are in agreement with your findings and recommendations and have already addressed those findings and implemented the recommendations.

In closing, the district would like to acknowledge the OSC Auditor and staff involved with our examination. We appreciate the professionalism and attention to detail as well as feedback during this process and are pleased to make improvements to further strengthen our controls.

Sincerely,

Rebecca Dunckel-King
Superintendent of Schools

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 reviewed policies and Board meeting minutes and interviewed officials to assess internal controls and gain an understanding of the claims audit process.
- We randomly selected a sample of 100 claims totaling \$565,053, using a computerized spreadsheet function. We reviewed the claims to assess whether they were for proper District purposes, adequately supported and approved, contained evidence that the goods or services were actually received, were in compliance with Board adopted policies, and were approved by the department head and audited and approved by the claims auditor prior to payment.
- We selected an additional sample of 27 claims totaling \$187,417 and reviewed them for the same concerns as in our random test sample. We selected claims that posed a higher risk for inappropriate District expenditures.

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) 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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