

Gloversville Enlarged School District

Claims Auditing

MARCH 2020



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

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Report Highlights

Gloversville Enlarged School District

Audit Objective

Determine whether claims paid prior to audit were allowable, supported and for appropriate purposes.

Key Findings

- Signed checks were printed before the claims auditor audited and approved claims.
- Claims for 213 check disbursements totaling \$845,215 were not audited and approved prior to payment.
- Credit card claims, paid by wire transfers, were not audited and approved prior to payment and 38 of 105 credit card charges totaling \$16,664 were not adequately supported.

Key Recommendations

The claims auditor should:

- Audit and approve claims before payment in accordance with New York State Education Law (Education Law), Section 2524.

District officials generally agreed with our recommendations and indicated they planned to initiate corrective action.

Background

The Gloversville Enlarged School District (District) serves residents of the City of Gloversville and the Towns of Bleecker, Caroga, Johnstown and Mayfield in Fulton County.

The nine-member elected 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 other administrative staff, is responsible for the District's day-to-day management under the Board's direction.

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

Quick Facts

Checks Disbursed To Pay Claims During the Audit Period	3,794
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Dollar Amount of Checks To Pay Claims Disbursed During the Audit Period	\$46.6 million
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2019-20 Appropriations	\$67 million
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Audit Period

July 1, 2018 – September 30, 2019

Claims Auditing

What is an Effective Claims Audit Process?

New York State Education Law (Education Law),¹ with limited exceptions,² requires 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. An effective claims auditing process ensures every claim against the district is subjected to an independent, thorough and deliberate review, contains adequate supporting documentation to determine whether it complies with statutory requirements and district policies, and the amounts claimed represent actual and necessary expenditures.

In addition, computer-signed checks should be printed only after claims are audited and approved for payment and a warrant is provided to the treasurer authorizing and directing her to pay the claimant. Furthermore, if claims are paid by non-check disbursements, such as Automated Clearing House (ACH) withdrawals³ and wire transfers, these disbursements should only be made after the claims are audited and approved for payment.

Claims Were Audited After Payments Were Made

On a bi-weekly basis, the Treasurer instructed the accounts payable clerk (clerk) to print signed checks and then inform the claims auditor that claims were ready to be audited and approved. The clerk provided the claims auditor with a disbursement listing (i.e., list of claims), a copy of signed checks⁴ and the corresponding claims for audit and approval. Once the claims auditor completed his audit, he signed and dated a form for each claim certifying that the claim was approved for payment and directing the Treasurer to pay the claim. In addition to instructing the clerk to print signed checks, the Treasurer also instructed the clerk to mail the payments for certain claims prior to the claims auditor's audit and approval.

We reviewed the corresponding claims for all 274 check disbursements, totaling \$1.5 million, made prior to the claims auditor's regular review and approval process. We found claims for 213 check disbursements, totaling \$845,215 or 78

1 New York State Education Law (Education Law) Section 2524 and Section 2526

2 The Board may, by adopting a resolution, authorize payment in advance of audit for claims for public utility services (electric, gas, water, sewer and telephone), postage, freight and express charges (Education Law, Section 2524). The claims for such prepayments should be audited as soon as possible after payment.

3 ACH is a clearing house and delivery system for processing large volumes of electronic payments between banks.

4 Actual signed checks are maintained in a bin on the accounts payable clerk's desk until the claims auditor returns a batch of audited claims that include the signed and dated forms authorizing payment with an attached sticky note indicating the batch of claims that may be paid.

percent, were not permitted by law to be paid prior to audit.⁵ These disbursements were for various purposes, such as payments for items purchased, services rendered, travel reimbursements, school supplies and scholarship awards. These payments in advance of claims being audited and approved occurred because the Board annually authorized the Treasurer to make payments in advance of the audit of claims for “public utility services, postage, etc.” However, Education Law⁶ only allows the authorization of payment in advance of audit for claims for public utility services, postage, freight and express charges. The claims paid prior to audit and approval were generally presented to the claims auditor with other claims during the subsequent monthly cycle. Except for minor instances, which we discussed with officials, we found the claims paid prior to audit were supported by adequate documentation, for appropriate purposes and subsequently audited by the claims auditor.

We also reviewed all 15 claims totaling \$12.7 million paid to the Hamilton-Fulton-Montgomery Board of Cooperative Educational Services (BOCES) because the BOCES required that component Districts make Automated Clearing House (ACH) payments for contracted services. We found that seven⁷ payments totaling \$6.2 million were paid prior to audit. Except for minor instances, which we discussed with officials, we found that claims were supported by adequate documentation, made for appropriate purposes and subsequently audited by the claims auditor.

Lastly, we reviewed all 15 credit card claims totaling \$60,965 paid by wire transfers during the audit period and found the claims auditor did not audit and approve any of the claims prior to payment. The Treasurer used the credit card to purchase supplies and pay for conference fees and related travel. The District’s independent auditors reviewed some of these same claims as part of their audit process and informed District officials in October 2018 that there was insufficient documentation for certain transactions. However, the Treasurer did not begin providing credit card claims to the claims auditor until May 2019.

Additionally, the credit card claims continued to be paid prior to audit and approval through our audit period. Although the claims were reviewed subsequent to payment, they continued to lack supporting documentation. The claims auditor stated that he was not aware the District had a credit card. Therefore, he did not know that there were credit card claims to be audited.

5 Claims totaling \$620,765 for 61 check disbursements were allowed to be paid in advance of claims audit and subsequently audited and approved. Of the 274 check disbursements, 172 totaling \$833,954 cleared the bank account prior to the claims auditor’s audit and approval.

6 Education Law Section 2524

7 Seven ACH disbursements totaling \$5.3 million were made after the claims auditor’s audit and approval. We could not determine the audit date for one totaling \$1.2 million.

We found that 38 of 105 credit charges,⁸ totaling \$16,664, were not adequately supported. Therefore, we interviewed District officials to gain additional information or documentation such as purchase orders or emails related to the charges. We also reviewed claims paid to vendors for similar items that did have adequate supporting documentation to obtain reasonable assurance that the purchases and charges were for appropriate District purposes.

When signed checks are printed before the claims auditor's audit and approval and claims that are not allowed to be paid in advance are paid before the claim auditor's audit and approval, there is an increased risk that improper claims could be paid. This risk is further increased when adequate supporting documentation is not maintained for credit card charges.

What Do We Recommend?

The Treasurer should:

1. Print signed checks only after the claims auditor has audited and approved the claims.
2. Ensure all claims, other than those allowed under Education Law, are audited and approved by the claims auditor before payment.
3. Ensure that the claims auditor is provided with adequate supporting documentation for credit card charges.

The Board should:

4. Correct the authorization to allow claims to be paid prior to audit so that it addresses only those claims allowable under Education Law.

⁸ Claims for 67 charges totaling \$44,293 were adequately supported.

Appendix A: Response From District Officials

GLOVERSVILLE
ENLARGED SCHOOL DISTRICT



234 Lincoln Street
Gloversville, New York 12078-0005
(518) 775-5790 • Fax (518) 725-8793

March 2, 2020

Office of the State Comptroller
One Broad Street Plaza
Glens Falls, NY 12801

Dear Sir/Madam:

The district is in receipt of the draft Report of Examination for the period July 1, 2018 – September 30, 2019 that focused on Claims Auditing. On February 10, 2020 an exit conference was held and the report was discussed with representatives of the District and the State Comptroller's Office in attendance.

At this time, the district is in agreement with the recommendations made by the Comptroller's Office staff. A majority of these recommendations have been addressed and a detailed explanation will be provided in the Corrective Action Plan.

We would like to express our thanks to the audit team from Glens Falls for the courtesy and professionalism extended while they were in our district.

Sincerely,

David Halloran
Superintendent of Schools

Robert Curtis
President of the Board of Education



"Building a Bright Future for Our Community"

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 officials and reviewed the policy manual and various financial records and reports to gain an understanding of the claims auditing process and documented any associated effects of deficiencies in that process.
- We selected and reviewed all claims for check disbursements paid between the claims auditor's regular process and not exempt from pre-audit to determine if they were adequately supported and for a proper District purpose. We compared the claims audit date to the dates the checks were issued and cleared on the bank statement to determine whether claims were audited and approved prior to payment.
- We reviewed all credit card claims paid by wire transfers and BOCES claims paid by ACH withdrawals to determine if they were adequately supported and made for proper District purposes. We compared the claims audit date to transaction confirmation documentation and bank statements to determine whether they were audited and approved 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 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-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 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/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#lgmg

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

Office of the New York State Comptroller
Division of Local Government and School Accountability
110 State Street, 12th Floor, Albany, New York 12236

Tel: (518) 474-4037 • Fax: (518) 486-6479 • Email: localgov@osc.ny.gov

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

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

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