

Massena Central School District

Selected Non-Payroll Disbursements

JUNE 2019



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

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Report Highlights

Massena Central School District

Audit Objective

Determine whether District officials properly disbursed payments for dental benefits, third-party administrative fees and utilities.

Key Findings

District officials allowed:

- The third-party administrator (administrator), and three utility vendors, who disbursed \$488,545 during the audit period (for dental plan benefits, administrative fees and utilities), direct access to a District bank account to disburse these funds.
- Payment of utilities totaling \$60,641 and administrative fees totaling \$1,144 without audit and approval by the claims auditor.

Key Recommendations

- Discontinue allowing the administrator and utility vendors from having direct access to a District bank account and the ability to disburse funds.
- Transfer money to the administrator for the total amount payable in satisfaction of dental claims and initiate and disburse funds for all utility payments.
- Ensure that all claims are adequately supported and audited and approved by the claims auditor when required.

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

Background

The Massena Central School District (District) serves the Towns of Brasher, Louisville, Massena and Norfolk in St. Lawrence 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 day-to-day management under the Board's direction.

The Treasurer is responsible for the custody and disbursement of all funds. The Business Manager serves as the Deputy Treasurer. The District contracts with the St. Lawrence-Lewis Board of Cooperative Education Services (BOCES) to perform the claims audit function and also appoints a separate claims auditor to audit BOCES claims. The District contracts with an administrator to process, audit and pay dental plan related claims on the District's behalf. In addition, the District purchases electric, natural gas and water and sewer services from four utility vendors.

Quick Facts

Enrollment	2,631
Employees	416
2018-19 Appropriations	\$54 million
Dental Benefits, Administrative Fees and Utilities for the Audit Period	\$755,399

Audit Period

July 1, 2017 – October 31, 2018

Selected Non-Payroll Disbursements

How Should Officials Properly Disburse District Funds?

The school district's treasurer is generally responsible for the disbursement of all money, including electronic payments and signing checks. The board and district management are responsible for establishing internal controls to ensure that cash disbursements are supported by appropriate documentation, are for proper business purposes and paid after the goods or services have been provided. When the board has appointed a claims auditor, the claims auditor is generally responsible for auditing and approving claims before they are paid by the treasurer, including claims for third-party administrator service fees.¹

New York State General Municipal Law (GML)² permits districts that self-fund health care benefits to enter into an agreement with a qualified third-party administrator to audit, approve and pay benefit claims on the district's behalf. GML permits districts to transfer money to an administrator in the total amount of benefit claims audited and approved by the administrator for disbursement by the administrator. However, GML does not authorize districts to provide an administrator or other vendors with access to withdraw funds from district bank accounts. Any electronic disbursement of money should be completed and controlled by the treasurer.

The Administrator and Vendors Had Access to District Funds

District officials provided the administrator and three of four utility vendors direct access to a District multi-fund bank account to disburse payments for services by electronic fund transfers (EFTs) or check. The Treasurer initiated and processed \$266,854 in electronic payments to one natural gas vendor through EFTs. However, payments for dental benefits and related administrative service fees were initiated by the administrator and other utility payments (for electric, natural gas and water and sewer services) were initiated by the vendors.

The administrator paid claims, on the District's behalf, to dental providers of enrolled employees by EFTs and check disbursements directly from the District bank account. The Treasurer accessed the administrator's website twice each week and printed a check register of EFTs and check disbursements made by the administrator to record these disbursements in the District's accounting system. The administrator audited the individual dental claims and authorized them for payment and the Treasurer prepared a summary claim each month that included the administrator's check register reports, which she submitted to the claims auditor for review and approval.

1 New York State 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 payments should be audited as soon as possible after payment.

2 New York State General Municipal Law, Section 92-a (6)

In addition, the administrator electronically deducted the related monthly service fees directly from the bank account. Although the administrator generated invoices for the fees covering the calendar month, payments were withdrawn mid-month. The Treasurer printed the monthly invoices received from the administrator's website and entered the disbursements in the accounting system. Although the service fee claims were typically audited and approved by the claims auditor, this often occurred after the administrator had already transferred the fee from the bank account.

The Treasurer told us that before making withdrawals, the utility vendors send monthly invoices to the District showing the amount to be withdrawn and the date. On these dates, the Treasurer reviewed the bank account online to monitor the disbursements and record them in the accounting system. The invoices were submitted to the claims auditor after payment, as permitted by law.

Although the Treasurer monitored the transactions performed by the administrator and utility vendors, there is no legal authority for the District to allow them to directly access and disburse funds from District bank accounts. Furthermore, this bank account maintains an average monthly balance of \$846,000 and is used to pay other expenditures. When the District allows outside parties to access and disburse funds from its bank account, there is an increased risk that unauthorized or inappropriate disbursements could be made.

To address these risks, we reviewed all electronic and check disbursements for utilities (natural gas - \$381,881, electric - \$264,673 and water and sewer - \$31,647), dental claims (\$68,090) and administrative fees (\$9,108) during the audit period. We reviewed the supporting claims and documentation to determine whether these payments were authorized and appropriate.³

While, all of these disbursements were for proper purposes and the Treasurer properly initiated and processed all natural gas payments to one utility vendor, we found the following exceptions:⁴

- The claims auditor did not audit and authorize utility payments totaling \$60,641 from the 9th through the 28th of February, 2018 and administrative fees payments totaling \$1,144 for February 9 and March 12, 2018. Officials told us that the former Treasurer resigned during this timeframe and as a result the normal process of having the Treasurer provide these claims to the claims auditor did not occur. In addition, the Business Manager told us that the claims auditor position was vacant from the 1st through the 20th of March, 2018.

3 For the dental claim disbursements, we traced to the summary claims approved by the claims auditor and determined whether they agreed with supporting check registers from the administrator.

4 Some disbursements had more than one deficiency.

-
- The administrator withdrew fees totaling \$7,975 for monthly service fees before month-end, in advance of providing the service for the month. In addition, \$7,964 in administrative fees were paid before authorization by the claims auditor.
 - Six claims totaling \$3,450 for administrative fees were not itemized and did not contain adequate supporting documentation for the fees charged. Officials provided us with copies of administrator contracts and support, which showed the fees charged and the number of enrollees each month. Except for minor discrepancies, which we discussed with officials, the fees charged were accurate.

Even though all of these disbursements were for legitimate expenditures and generally supported and authorized, because the administrator and vendors had direct access to the bank account and the Treasurer did not initiate the disbursements for payments of services received, funds could be placed at unnecessary risk for loss or misappropriation.

What Do We Recommend?

The Board and District officials should:

1. Discontinue allowing the administrator and utility vendors from having access to the bank account and the ability to disburse funds.
2. Ensure claims are adequately supported and audited and approved by the claims auditor when required.
3. Ensure administrative services fees are supported by itemized claims and not paid until after the related services have been performed.

The Treasurer should:

4. Transfer money to the administrator for the total amount payable in satisfaction of dental claims audited and approved and process utility disbursements by paying with a check or initiating EFTs.

Appendix A: Response From District Officials

Massena Central School District

84 Nightengale Avenue
Massena, New York 13662



SUPERINTENDENT OF SCHOOLS

Patrick H. Brady

CANDACE PRAIRIE
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5/20/2019

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

Re: Selected Non-Payroll Disbursements

Dear Ms. Wilcox,

The Massena Central School District is in receipt of the Audit of our Claims Processing. I would like to thank the Local Office of the State Comptroller on behalf of the Board of Education and District Administration for their professionalism and courtesy while in the district. The district is pleased to hear that no miscalculations or fraud were found throughout the thorough audit of our claims disbursements.

Please see Audit Recommendations and respective Corrective Action Plan below:

Audit Recommendation:

1. Discontinue allowing the administrator and utility vendors from having access to the bank account and the ability to disburse funds.

Corrective Action Plan:

The district has fully resolved this concern by changing some vendors to physical checks and setting up Positive Pay for the rest of them. Positive pay is a secure process that allows the district to approve claims prior to them being withdrawn from our account. If we do not approve them within the hours of 8:00AM and noon each day, the claims will automatically be declined.

Audit Recommendation:

2. Ensure claims are adequately supported and audited and approved by the claims auditor when required.

Corrective Action Plan:

As noted in the audit, this shortfall was caused by staffing turnover. We had the District Treasurer resign in January, 2018 and that position did not get filled until April. Concurrently, the Claims Auditor employed by BOCES also resigned in February and we had a brand new one start in March. Due to these unforeseen staffing changes, the manual claims audit was missed. Manual claims are wire or ACH

payments. We are now fully staffed and do not expect this as being an issue in the future as it was a rare coincidence that both positions turned over in the same timeframe.

Audit Recommendation:

3. Ensure administrative services fees are supported by itemized claims and not paid until after the related services have been performed.

Corrective Action Plan:

The district has already modified its current practices to change the way we pay the vendor their fee. We now print the invoice and enrollment backup, submit to claims auditor and have it audited and paid in a regular check run after the month of service is complete.

Audit Recommendation:

4. Transfer money to the administrator for the total amount payable in satisfaction of dental claims audited and approved and process utility disbursements by paying with a check or initiating EFTs.

Corrective Action Plan:

The district is in the process of updating our process for dental claims and will have it in place by the end of this summer. We are currently setting up a new bank account that will be used exclusively for dental claims. This bank account will have a minimal amount of money in it and as with the first recommendation; we will setup Positive Pay on all of the claims against this account.

Thank you for the opportunity to respond to the above recommendations. As aforementioned, the district is moving forward with addressing all of the topics in a timely fashion.

Respectfully,

Patrick H. Brady
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 interviewed District officials and employees to obtain an understanding of the disbursement procedures related to dental benefits, utilities and administrative service fees.
- We reviewed all multi-fund bank statements during the audit period to identify all dental claim, utility and administrative service fee check and electronic disbursements. We reviewed the corresponding claims and supporting documentation to determine whether the disbursements were properly authorized and recorded and were for proper business purposes and audited and approved by the claims auditor.

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.

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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