

Schroon Lake Central School District

Claims Auditing

JULY 2019



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

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Report Highlights

Schroon Lake Central School District

Audit Objective

Determine whether claims were supported by adequate documentation, for appropriate purposes and audited and approved before payment.

Key Findings

- Checks were printed before the claims auditor audited and approved the claims.
- Claims totaling \$172,760 for 35 check disbursements and 50 non-check disbursements made during the audit period were not audited and approved before payment.

Key Recommendations

- Print and sign checks after the claims have been audited and approved.
- Audit and approve claims before payment in accordance with New York State Education Law.

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

Background

The Schroon Lake Central School District (District) serves the residents of the Towns of North Hudson and Schroon in Essex County and Chester in Warren County.

The five-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 day-to-day management under the Board's direction.

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

Quick Facts

Number of Claims Paid During the Audit Period	1,569
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Amount of Claims Paid During the Audit Period	\$4.8 million
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2018-19 Adopted Appropriations	\$8.0 million
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Audit Period

July 1, 2017 – February 28, 2019

Claims Auditing

What Are Effective Claims Auditing Procedures?

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. Effective claims auditing procedures ensure every claim against the 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 the amounts claimed represent actual and necessary expenditures.

In addition, checks should be printed and signed only after the claims are audited and approved for payment. 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 monthly basis, the District Treasurer (Treasurer) provided the claims auditor with a warrant (i.e., list of claims) and the corresponding claims for audit and approval. Once the claims auditor completed her audit, she initialed and dated each claim and signed and dated the warrant to indicate the claims were approved for payment.

However, checks were printed before the claims auditor audited and approved the corresponding claims. The Treasurer told us that she also signed and issued checks for certain claims before the regular monthly claims audit to meet payment deadlines. In addition, the Treasurer made non-check disbursements to pay claims before the regular monthly claims audit to meet payment deadlines. Claims for these disbursements were then presented to the claims auditor with other claims during the subsequent monthly cycle.

We reviewed 50 check disbursements totaling \$57,730 for claims paid during the audit period and found they were supported by adequate documentation and for appropriate purposes. However, the claims auditor did not audit and approve claims for six disbursements totaling \$6,233 before payment, as required

1 New York State Education Law Section 1724 and Section 1709

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 1724). 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.

by Education Law. These disbursements were for the payment of services rendered by individuals, a conference registration fee and purchase of tires. The corresponding checks were dated outside the regular monthly claims audit cycle.

We also reviewed the corresponding claims for an additional 35 check disbursements totaling \$132,236 with checks dated outside the regular monthly claims audit cycle. All these claims were supported by adequate documentation and for appropriate purposes. However, the claims auditor did not audit and approve claims for 29 of these disbursements totaling \$104,901 before payment, as required. These disbursements were for various purposes, such as payments for services rendered by individuals, lighting upgrades and purchase of a tractor.

We also reviewed the corresponding claims for 50 non-check disbursements totaling \$61,626 made during the audit period. All these claims were supported by adequate documentation and for appropriate purposes. However, the claims auditor did not audit and approve claims for any of these disbursements before payment. These disbursements included 21 for credit card charges totaling \$46,097, 13 for public utility services (electric and phone) totaling \$9,656, eight for school supplies totaling \$1,372, five for postage totaling \$2,251 and three for a copier lease totaling \$2,250.

Had the Board adopted a resolution authorizing the payment in advance of audit for claims allowed by Education Law, the 18 claims for public utility services and postage totaling \$11,907 would have been authorized to be paid before the claims auditor's approval, although they would be required to be audited after payment. However, the Board had not adopted such a resolution. The other 32 claims totaling \$49,719 were not eligible to be paid before the claims auditor's approval.

When checks are printed and ineligible claims are paid before the claim auditor's approval, there is an increased risk that improper claims could be paid.

What Do We Recommend?

The Treasurer should:

1. Print and sign 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.

The Board should:

3. Adopt a resolution authorizing the payment in advance of audit for claims allowed by Education Law, if it wants the Treasurer to continue to pay these claims prior to audit.

Appendix A: Response From District Officials

Schroon Lake Central School District

1125 U.S. Rt. 9 PO Box 338 Schroon Lake, N.Y. 12870

Phone (518) 532-7164 Fax (518) 532-0284

Board of Education

Bruce Murdock, President
Robert Claus, Vice President
Kevin Kelly Sr., BOE Member
Eric Welch, BOE Member
Jacob DesLauriers, BOE Member

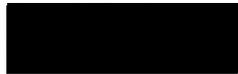


District Officials

Stephen Gratto, Superintendent
David Williams, Pupil Personnel Director
Derrick Denteh, Guidance Counselor
Lisa DeZalia, District Clerk
Danielle Y. Fosella, District Treasurer

June 21, 2019

Attention:



NYS Office of the State Comptroller
Division of Local Government and School Accountability
One Broad Street Plaza
Glens Falls, NY 12801

Dear Sir,

We are in receipt of the draft claims audit report for Schroon Lake Central School (2019M-97) provided to us by the Comptroller's Office. We have read the report and the recommendations contained within. Specifically, the report gives the following recommendations:

The Treasurer should:

1. Print and sign 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.

The Board should:

3. Adopt a resolution authorizing the payment in advance of audit for claims allowed by Education Law, if it wants the Treasurer to continue to pay these claims prior to audit.

District Response:

We are in agreement with the audit findings and we appreciate the work that went into making these recommendations. This Audit Response will also serve as our Corrective Action Plan (CAP).

SLCS Corrective Action Plan

Audit Recommendations

#1 The Treasurer should print and sign checks only after the claims auditor has audited and approved the claims.

Implementation Plan of Action

Our district treasurer has eliminated the practice of printing and signing checks before the internal auditor has reviewed the claims. Shortly after this issue was brought to our attention, we began printing actual checks after the billing information had been provided to and approved by the internal auditor.

Implementation Date:

This corrective action was implemented in April, 2019

Person Responsible for Implementation:

District Treasurer – Danielle Fosella
Superintendent – Stephen Gratto

#2 Ensure all claims, other than those allowed under Education Law, are audited and approved by the claims auditor before payment.

Implementation Plan of Action

SLCS has typically followed the recommended procedure. However, in a few isolated cases, payments were made before approval was received by the claims auditor. This practice has been discontinued. We no longer make any payments prior to approval by the claims auditor.

Implementation Date: June, 2019

Person Responsible for Implementation:

District Treasurer – Danielle Fosella
Superintendent – Stephen Gratto

Schroon Lake Central School District

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District Officials

Stephen Gratto, Superintendent
David Williams, Pupil Personnel Director
Derrick Denteh, Guidance Counselor
Lisa DeZalia, District Clerk
Danielle Y. Fosella, District Treasurer

#3 Adopt a resolution authorizing the payment in advance of audit for claims allowed by Education Law, if it wants the Treasurer to continue to pay these claims prior to audit.

Implementation Plan of Action

The board will be asked to pass a resolution authorizing the payment in advance of audit for claims allowed by education law.

Implementation Date: June, 2019

June 27, 2019

Person Responsible for Implementation:

Superintendent – Stephen Gratto
SLCS Board of Directors

We are believe we have followed or are in the process of following the recommendations given to us. Please let us know if there is more we need to do or if you have further questions.

Sincerely,

Stephen Gratto
Superintendent

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 procedures related to claims auditing and documented any associated effects of deficiencies in those procedures.
- We randomly selected 50 check disbursements from the 1,387 checks disbursed for claims paid during the audit period and reviewed the corresponding claims to determine whether they were supported by adequate documentation, for appropriate purposes and audited and approved before payment. We also reviewed the corresponding claims for an additional 35 check disbursements that were dated outside the regular monthly claims audit cycle for the same purposes. We judgmentally selected our sample to include accounts payable checks issued throughout the audit period. Because checks were printed before the claims auditor audited and approved the related claims, we compared the dates the checks cleared the bank with the dates the claims auditor approved the claims. If a check cleared the bank before the claim was approved, we concluded that the claim was paid before the claims auditor's approval.
- We selected 50 non-check disbursements from the 182 made to pay claims during the audit period and reviewed the corresponding claims to determine whether they were supported by adequate documentation, for appropriate purposes and audited and approved before payment. We judgmentally selected our sample to include non-check disbursements made throughout the audit period.

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 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

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

GLENS FALLS REGIONAL OFFICE – Jeffrey P. Leonard, Chief Examiner

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