



Norwood-Norfolk Central School District Claims Auditing

Report of Examination

Period Covered:

July 1, 2014 – April 30, 2016

2016M-288



Thomas P. DiNapoli

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State of New York Office of the State Comptroller

Division of Local Government and School Accountability

November 2016

Dear School District Officials:

A top priority of the Office of the State Comptroller is to help school district officials manage their districts efficiently and effectively and, by so doing, provide accountability for tax dollars spent to support district operations. The Comptroller oversees the fiscal affairs of districts statewide, as well as districts' compliance with relevant statutes and observance of good business practices. This fiscal oversight is accomplished, in part, through our audits, which identify opportunities for improving district operations and Board of Education governance. Audits also can identify strategies to reduce district costs and to strengthen controls intended to safeguard district assets.

Following is a report of our audit of the Norwood-Norfolk Central School District, entitled Claims Auditing. This audit was conducted 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.

This audit's results and recommendations are resources for district officials to use in effectively managing operations and in meeting the expectations of their constituents. If you have questions about this report, please feel free to contact the local regional office for your county, as listed at the end of this report.

Respectfully submitted,

*Office of the State Comptroller
Division of Local Government
and School Accountability*

Introduction

Background

The Norwood-Norfolk Central School District (District) is located in the Towns of Louisville, Madrid, Norfolk, Potsdam and Stockholm in St. Lawrence County. The District is governed by the Board of Education (Board), which is composed of nine elected members. The Board is responsible for the general management and control of the District's financial and educational affairs. The Superintendent of Schools (Superintendent) is the District's chief executive officer and is responsible, along with other administrative staff, for day-to-day District management under the Board's direction.

The District operates one school with approximately 1,040 students and 180 employees. The District's budgeted appropriations for the 2015-16 fiscal year were approximately \$21 million, funded primarily by real property taxes and State aid.

The Board has delegated its claims auditing responsibility to a claims auditor. The claims auditor reports directly to the Board and is responsible for examining and allowing or rejecting all accounts, charges, claims or demands against the District. The Board appointed an individual to serve as the claims auditor until November 18, 2015, after which it contracted with the St. Lawrence-Lewis Board of Cooperative Educational Services (BOCES) through a shared services agreement to audit and approve claims.

Objective

The objective of our audit was to examine the claims audit process. Our audit addressed the following related question:

- Were claims adequately documented, for appropriate District purposes and properly audited and approved prior to payment?

Scope and Methodology

We examined the District's claims audit process for the period July 1, 2014 through April 30, 2016.

We conducted our audit in accordance with generally accepted government auditing standards (GAGAS). More information on such standards and the methodology used in performing this audit are included in Appendix B of this report. 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.

**Comments of
District Officials and
Corrective Action**

The results of our audit and recommendations have been discussed with District officials, and their comments, which appear in Appendix A, have been considered in preparing this report. District officials agreed with our recommendations and indicated they plan to initiate corrective action.

The Board has the responsibility to initiate corrective action. 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, 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, with a copy forwarded to the Commissioner of Education. To the extent practicable, implementation of the CAP must begin by the end of the next 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 Board should make the CAP available for public review in the District Clerk's office.

Claims Auditing

New York State Education Law 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. The Board may delegate the claims audit function by appointing a District employee, an independent contractor or an individual employed through an intermunicipal cooperative agreement or through shared services to the extent authorized by law. When the Board delegates the claims audit function using a shared service or contractual arrangement, the Board should audit all claims from the entity that provides the claims audit service or delegate the audit and approval of these claims to another independent party.

An effective claims processing system ensures that every claim against the District is subjected to an independent, thorough and deliberate review. Such a review should ensure that every claim contains enough supporting documentation to determine whether it complies with statutory requirements and District policies and that the amounts claimed represent actual and necessary District expenditures. In addition, it is important for the Board or the appointed claims auditor to determine whether the claims are properly itemized and supported and whether the District has actually received the goods or services described in each claim.

The District needs to improve its claims auditing process to help ensure all claims are adequately documented, for appropriate District purposes 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. To facilitate the claims auditing process, the Board adopted a claims auditor policy outlining the claims auditor's responsibilities. The Treasurer prepared claim packets, which were reviewed by the Business Manager before being submitted to the claims auditor. After auditing the claims, the claims auditor provided the Treasurer with written authorization to pay the approved claims.

The Board-appointed individual who served as claims auditor resigned effective November 18, 2015. District officials then contracted with BOCES through a cooperative service agreement to audit District claims, and a BOCES employee has audited all District claims including those for BOCES-provided services since then. The District is one of BOCES' component districts and made material and significant contract payments to BOCES. Therefore, this arrangement was inappropriate because the BOCES claims auditor approved

claims submitted by her employer, which compromised the auditor's objectivity and independence.

During our audit period, the District paid 3,985 claims totaling about \$25 million. We reviewed 110 of these claims totaling approximately \$7.1 million to determine whether the claim packets contained sufficient documentation and if the claims were properly authorized before payment, adequately itemized and for valid District purposes. Our review included 80 randomly selected claims totaling \$376,700 and 30 claims paid to BOCES totaling \$6.8 million.¹

We found that the BOCES claims auditor inappropriately audited and approved 19 claims submitted by her employer for contract services and employee health insurance payments totaling approximately \$4.6 million.² The BOCES claims auditor and the District's prior claims auditor approved BOCES health insurance claims³ for payments totaling almost \$3.6 million that lacked detailed supporting documentation. One claim for a grant contract with BOCES (audited and approved by the BOCES claims auditor) was approved and paid in December 2015, six months before the services were received. We also found that four claims totaling \$1,573 lacked departmental approval, and nine claims totaling \$11,804 lacked documentation showing the goods or services were received.

The lack of a properly established claims audit process places the District at risk that erroneous or irregular claims could be paid. It was inappropriate for the BOCES claims auditor to review and approve claims for BOCES services because the District made material and significant contract payments to BOCES.

Recommendations

The Board should:

1. Ensure that the BOCES' claims are audited and approved by someone other than the BOCES claims auditor.

The claims auditor should:

2. Not authorize the payment of claims before the related goods or services have been received, except when permitted by law, and should ensure that claims contain adequate supporting documentation before authorization.

¹ See Appendix B for more information on our sampling methodology.

² Our sample included claims paid to BOCES both before and after the BOCES claims auditor began auditing and approving District claims. Some of the claims had more than one exception.

³ The District participates in a health insurance plan with BOCES and other participating school districts.

APPENDIX A

RESPONSE FROM DISTRICT OFFICIALS

The District officials' response to this audit can be found on the following page.

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James Cruikshank
Superintendent of Schools

Lisa Mitras
Business Manager

*"What greater or better gift can we offer the
Republic than to teach and instruct our youth?"*
Cicero

October 21, 2016

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

Re: Response of Report of Examination 2016M-288

Dear Rebecca Wilcox

This letter is in response to the audit conducted for the period July 1, 2014 to April 30, 2016. The Norwood-Norfolk Central School District Board of Education and Administration acknowledge the preliminary draft findings which focused on our Claims Auditing processes.

Administration has reviewed the preliminary report and agrees with its findings. Administration is currently working on a corrective action plan to fulfill the specified recommendation. In addition, the district will reinforce current procedures, which were overlooked in some instances, with faculty and staff, to ensure the claims auditing process is effective and functioning as required.

After a corrective action plan is complete, reviewed by the Audit Committee and approved by the Board of Education, the District will submit a copy of the plan within 90 days after the final report is released to the Office of the State Comptroller.

The District thanks and commends the work of the field auditor and staff involved with the examination of our claims auditing operations. The field auditor was professional and courteous at all times during the audit process. The District appreciates the positive suggestions and recommendations to improve our claims auditing process.

Respectfully Submitted,

James Cruikshank
Superintendent

APPENDIX B

AUDIT METHODOLOGY AND STANDARDS

To achieve our audit objective and obtain valid evidence, we performed the following procedures:

- We reviewed Board meeting minutes from the 2014-15 and 2015-16 fiscal years to determine if the Board appointed an appropriate claims auditor.
- We interviewed District officials and the claims auditor to determine the policies and procedures for the audit, approval and payment of claims.
- We randomly selected 80 claims (2 percent) paid from all funds using a random number generator. We also judgmentally selected 30 BOCES claims paid from July 1, 2015 through April 30, 2016, the span of time during our audit period when the BOCES employee audited District claims. We reviewed the selected claims to determine if they were adequately documented, for proper District purposes, and included departmental approval and documentation showing that the goods or services were received. We also determined whether the payees and amounts paid on the canceled checks agreed with the claims and warrants.

We conducted this performance audit in accordance with GAGAS. 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.

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