



# Fort Ann Central School District

## Internal Controls Over Claims Processing and Information Technology

Report of Examination

Period Covered:

July 1, 2010 — February 29, 2012

2012M-81



Thomas P. DiNapoli

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# State of New York Office of the State Comptroller

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## **Division of Local Government and School Accountability**

August 2012

Dear School District Officials:

A top priority of the Office of the State Comptroller is to help local government officials manage their districts efficiently and effectively and, by so doing, provide accountability for tax dollars spent to support government operations. The Comptroller oversees the fiscal affairs of districts statewide, as well as 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 local district assets.

Following is a report of our audit of the Fort Ann Central School District, entitled Internal Controls Over Claims Processing and Information Technology. 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 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 Fort Ann Central School District (District) is located in the Towns of Fort Ann, Kingsbury, Granville and Hartford in Washington County. The District is governed by the Board of Education (Board), which comprises seven elected members. The Board is responsible for the general management and control of the District's financial and educational affairs. The Superintendent of Schools is the chief executive officer of the District and is responsible, along with other administrative staff, for the day-to-day management of the District under the direction of the Board.

There is one school in operation within the District, with approximately 510 students and 100 employees. The District's budgeted appropriations for the 2011-12 fiscal year were approximately \$11 million, which were funded primarily with State aid, real property taxes, and grants.

The Board appointed a claims auditor for the 2010-11 and 2011-12 fiscal years to assume the Board's powers and duties to formally examine and allow or reject claims or demands against the District. The claims auditor reports directly to the Board.

## Objective

The objective of our audit was to evaluate the District's internal controls over claims processing and information technology. Our audit addressed the following related questions:

- Are internal controls over claims processing appropriately designed and operating effectively to adequately safeguard District assets?
- Are controls over selected web applications and services offered via the District's web site appropriately designed and configured to adequately protect District data from unauthorized access?

## Scope and Methodology

Our overall goal was to assess the adequacy of the internal controls put in place by officials to safeguard District assets. To accomplish this, we performed an initial assessment of the internal controls so that we could design our audit to focus on those areas most at risk. Our initial assessment included evaluations of the following areas: financial condition, cash receipts and disbursements, purchasing, payroll and personal services, and information technology (IT). Based on that evaluation, we determined that controls appeared to be adequate and limited risk existed in most of the financial areas

we reviewed. We did determine that there are inherent risks in the claims processing area and, therefore, we examined internal controls over claims processing for the period July 1, 2010 to February 29, 2012. Furthermore, our audit disclosed areas in need of improvement concerning some IT controls. Because of the sensitivity of some of this information, the vulnerabilities are not discussed in this report, but have been communicated confidentially to District officials so they could take corrective action.

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.

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

## Claims Processing

Education Law requires the Board to audit all claims, with a few exceptions,<sup>1</sup> 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. Prior to authorizing payment, it is important for the claims auditor to determine whether the claims are properly itemized and supported, and whether the District has actually received the goods and/or services. Furthermore, signed checks should not be generated prior to the claims being reviewed and approved for payment.

The Board appointed a claims auditor to assume its powers and duties to examine and approve or disapprove claims. To facilitate this process, the Board also adopted policies relating to the claims auditor's qualifications and duties. The District's claims auditor is employed as a teacher at the District and has been trained by the Business Manager and the accounts payable clerk to perform her duties. The District does not have written procedures on how to process claims; however, through interviews, observation and a review of selected claims, we found that the District has established an adequate system of checks and balances for claims processing.

However, we found that the accounts payable clerk prepares signed checks prior to the claims auditor's review and approval of the claims for payment. The accounts payable clerk provides these signed checks, with the claims packet, to the claims auditor. Upon completion of her review, the claims auditor initials the check stub attached to the claims packet to show her approval prior to payment. When checks are signed prior to the claims auditor's approval, the risk is increased that payments could be made for non-District purposes.

During our audit period, the District processed claims totaling \$7,948,774.<sup>2</sup> We tested 40 of these claims<sup>3</sup> totaling \$340,751 and found no errors or significant weaknesses. All of the claims we examined contained adequate documentation, adequate authorization, and were for appropriate District expenditures. Furthermore, a comparison of the date the claims auditor approved the claims for payment to the date the vendor checks cleared the District's bank account indicates that the claims auditor approved the payments prior to the accounts payable clerk disbursing the checks. Overall, we found that the District

<sup>1</sup> For example, public utility services, postage, freight and express charges

<sup>2</sup> This amount does not include payments made from the general fund for payroll or to the trust and agency fund.

<sup>3</sup> See Appendix B for sampling methodology.

had established adequate internal controls over claims processing and that these controls were working effectively.

**Recommendations**

1. The Board should adopt formal written procedures for claims processing to document the procedures currently in place, and ensure that District staff adheres to them.
2. District officials should not print signed checks prior to the claims being reviewed and approved for payment.

## Information Technology

Computerized data is a valuable resource that District officials rely on to make financial decisions and report to State agencies. If computers on which this data is stored fail, or the data is lost or altered, either intentionally or unintentionally, the results could range from inconvenient to catastrophic. Even small disruptions can require extensive time and effort to evaluate and repair. For this reason, it is important that the Board adopt policies and procedures and develop controls to safeguard computerized data and assets.

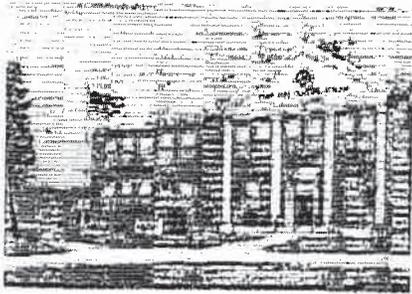
Our audit disclosed areas in need of improvement. Because of the sensitivity of some of this information, the vulnerabilities are not discussed in this report, but have been communicated confidentially to District officials so they could take corrective action.

## **APPENDIX A**

### **RESPONSE FROM DISTRICT OFFICIALS**

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

District officials included their procedures for the claims auditor as part of their response. We did not include this information in the report, as their response letter contained sufficient information.



## *Fort Ann Central School District*

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Maureen A. VanBuren, Superintendent

August 15, 2012

Office of the State Comptroller  
Division of Local Government and School Accountability  
PSU-CAP Submission  
110 State Street, 12<sup>th</sup> Floor  
Albany, NY 12236

Re: Fort Ann Central School District  
2012M-081  
Internal Controls Over Claims Processing and Information Technology

To Whom It May Concern:

This letter serves as both an audit *Response* and *Corrective Action Plan* for the Fort Ann Central School District. The Fort Ann Central School District agrees with the findings and appreciates the departments review to assist us in improving our operations and governance.

The following corrective actions will be implemented:

**Audit Recommendation:**

1. The Board should adopt formal written procedures for claims processing to document the procedures currently in place, and ensure that District staff adheres to them.

**Implementation Plan of Action:**

Procedures have been memorialized in writing and reviewed by the Board of Education on August 14, 2012. A copy of the procedures are attached.

**Implementation Date:**

August 14, 2012

**Person Responsible for Implementation:**

The Internal Claims auditor will be responsible for the full implementation.

**Audit Recommendation:**

2. District officials should not print signed checks prior to the claims being reviewed and approved for payment.

**Implementation Plan of Action:**

The internal claims process will have a two-step procedure which will require the review and approval for payment prior to the printing of checks and then once checks are printed and signed will be reviewed again for verification of consistency with authorized payments.

**Implementation Date:**

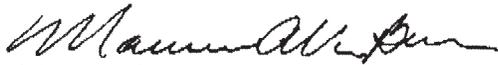
September 1, 2012

**Person Responsible for Implementation:**

The Internal Claims auditor will be responsible for the full implementation.

Respectfully Submitted

August 14, 2012



Maureen A. VanBuren  
Superintendent

cc: New York State Education Department, Office of Audit Services

## APPENDIX B

### AUDIT METHODOLOGY AND STANDARDS

Our overall goal was to assess the adequacy of the internal controls put in place by officials to safeguard District assets. To accomplish this, we performed an initial assessment of the internal controls so that we could design our audit to focus on those areas most at risk. Our initial assessment included evaluations of the following areas: financial condition, cash receipts and disbursements, purchasing, payroll and personal services, and information technology.

During the initial assessment, we interviewed appropriate District officials, performed limited tests of transactions and reviewed pertinent documents, such as District policies and procedures manuals, Board minutes, and financial records and reports. In addition, we obtained information directly from the computerized financial databases and then analyzed it electronically using computer-assisted techniques. This approach provided us with additional information about the District's financial transactions as recorded in its databases. Further, we reviewed the District's internal controls and procedures over the computerized financial databases to help ensure that the information produced by such systems was reliable.

After reviewing the information gathered during our initial assessment, we determined where weaknesses existed, and evaluated those weaknesses for the risk of potential fraud, theft and/or professional misconduct. Based on that evaluation, we determined that controls appeared to be adequate and limited risk existed in most of the financial areas we reviewed. We then decided on the reported objective and scope by selecting for audit the area most at risk. To accomplish the objective of this audit and obtain valid audit evidence, our procedures included the following:

- We interviewed District officials and employees to gain an understanding of the District's claims processing procedures.
- We reviewed the minutes of the Board's proceedings for approval of the claims auditor position and District policies.
- We randomly selected a sample of claims that were processed from July 1, 2010 to February 29, 2012. Our testing included 40 general fund claims totaling \$340,751 out of a population of 2,553 claims totaling \$7,948,774. We excluded payroll and trust and agency checks from our testing.
- We reviewed the claims packet for supporting documentation such as itemized invoices, departmental approval, purchase orders, requisitions, and/or claims forms and receiving slips.
- We reviewed the claims auditor's log for evidence of proper and adequate claims review.
- We traced the payment amount and vendor name listed on the certified warrant to the canceled check; we also compared the date the check was canceled to the date the claims auditor approved the payment.

- We examined warrants for required certifications.
- We examined Board minutes for required Board approval of warrants.
- We conducted examinations and scans of the District’s web site for vulnerabilities.

We conducted this performance audit in accordance with generally accepted government auditing standards (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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