



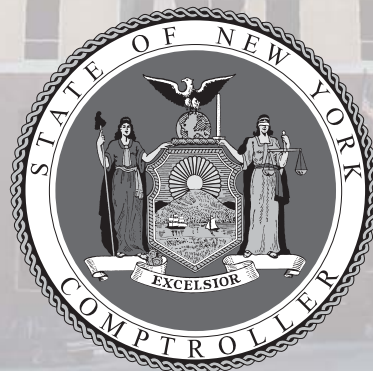
Moriah Central School District Internal Controls Over Professional Services and Claims Auditing

Report of Examination

Period Covered:

July 1, 2009 — August 31, 2010

2010M-238



Thomas P. DiNapoli

Table of Contents

	Page
AUTHORITY LETTER	2
INTRODUCTION	3
Background	3
Objective	3
Scope and Methodology	3
Comments of District Officials and Corrective Action	3
PROFESSIONAL SERVICES AND CLAIMS AUDITING	5
Professional Services	5
Claims Auditing	6
Recommendations	7
APPENDIX A Response From District Officials	8
APPENDIX B Audit Methodology and Standards	11
APPENDIX C How to Obtain Additional Copies of the Report	13
APPENDIX D Local Regional Office Listing	14

State of New York Office of the State Comptroller

Division of Local Government and School Accountability

March 2011

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 Moriah Central School District, entitled Internal Controls Over Professional Services and 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 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 Moriah Central School District (District) is located in the Towns of Crown Point, Moriah, and Westport, in Essex County. The District is governed by the Board of Education (Board) which comprises 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 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 790 students and 135 employees. The District's budgeted expenditures for the 2010-11 fiscal year are \$13.9 million, which are funded primarily with State aid, real property taxes, and grants.

The Board is responsible for ensuring that District officials comply with the Board adopted purchasing policy, which requires the use of a request for proposal when procuring professional services. The Board has delegated its responsibilities to audit all claims to an independent contractor, who serves as the District's claims auditor.

Objective

The objective of our audit was to determine if the District had established effective internal controls over professional services and claims auditing. Our audit addressed the following related question:

- Are internal controls over professional services and claims auditing appropriately designed and operating effectively to adequately safeguard District assets?

Scope and Methodology

We examined the District's internal controls over professional services and claims auditing for the period July 1, 2009 to August 31, 2010.

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 is 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.

The Board has the responsibility to initiate corrective action. Pursuant to Section 35 of the General Municipal Law, Section 2116-a (3)(c) of the 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.

Professional Services and Claims Auditing

The Board is responsible for adopting policies to provide reasonable assurance that goods and services will be procured at the best available prices, that taxpayer funds will be expended in a prudent manner, and that procurements comply with statutory requirements. The Board is also responsible for approving contracts for professional services and establishing and monitoring the implementation of internal controls over District operations. District officials are responsible for implementing those policies and designing internal controls that help safeguard assets and ensure the prudent and economical use of its moneys when procuring goods and services, such as entering into written agreements clearly defining contract terms. In addition, a proper claims audit function ensures that claims are properly supported, represent actual and necessary District costs, and are reviewed and approved by the claims auditor prior to payment.

The Board has adopted a comprehensive purchasing policy that requires the use of a request for proposal (RFP) to procure professional services. However, District officials did not always use RFPs to obtain professional services. Additionally, the District paid certain professional service providers without the benefit of written agreements. As a result, the District may have paid more than necessary when obtaining these services. We also found that the claims auditor did not perform his duties in accordance with the District's claims auditor policy and that the District paid 45 claims totaling \$191,742 prior to the review and approval of the claims auditor. As a result, the District was at risk of paying claims that were not authorized or legitimate District expenses.

Professional Services

Competitive bidding is not required for the procurement of professional services which involve specialized skill, training and expertise; use of professional judgment or discretion; and/or a high degree of creativity. However, General Municipal Law requires the District to adopt internal policies and procedures governing the procurement of goods and services when competitive bidding is not required. These policies and procedures should describe procurement methods, explain when to use each method, and require adequate documentation of actions taken. Soliciting competition through quotes or RFPs helps to ensure that the District enters into contracts for goods and services that provide the desired services on the most beneficial terms and conditions or for the best value. It is also important for the Board and professional service providers to enter into written agreements that indicate the contract period, the services to be provided, and the basis for compensation for those services before services are provided to

the District. Written agreements help to protect the District in the event that contractors default on their obligations or make excessive claims.

Although the District's current purchasing policy requires that the District obtain RFPs for professional services, the Board did not ensure that District officials always obtained RFPs. In addition, written agreements were not put into place for all services to protect District assets. We tested a sample of 15 professional service providers¹ who were paid a total of \$351,118 during our audit period to determine if the District procured their services in accordance with District's purchasing policy and if the Board had entered into written agreements for their services. We found that the District paid \$155,741 to 13 of these service providers without obtaining RFPs. The 13 service providers include six contractors that provided special education services totaling \$80,673; three firms that provided legal services totaling \$41,965; three firms that provided auditing services totaling \$21,015; and an insurance agent that provided services costing \$12,088. In addition, the District paid nine of the 15 professional services providers \$110,940 without the benefit of a written agreement. In fact, the Board did not set a fixed amount of compensation or set the hourly rate to be paid for these services. As a result, we could not verify that the payments made to these nine professional service providers during our audit period were paid at the proper rate. However, we examined the 35 payments totaling \$240,178 made during our audit period that were paid to the six professional service providers for which written agreements with the Board had been approved, to verify that the payments were made in accordance with the written agreements. We noted no exceptions.

When District officials do not adhere to District policy and award contracts for professional services without the benefit of RFPs, they cannot be sure that they have acquired professional services in the most economical manner and in the best interest of District taxpayers. Additionally, by not having written agreements in place that have been approved by the Board, District officials cannot be certain that the District is properly paying for the agreed-upon services and that the services are delivered in accordance with District requirements.

Claims Auditing

Conducting a proper audit of claims prior to payment is an integral part of any internal control system over disbursements. Among other things, a proper audit of claims should provide assurance that: the proposed payment is for valid and legal purposes, the obligation

¹ We selected the sample by first reviewing all vendors that received payments during our audit period and then selecting all vendors that appeared to be professional service providers. We then determined which of these vendors were professional service providers and tested the first 15 on our list.

was incurred by an authorized official, the goods or services for which payment is claimed were actually received or rendered, and the obligation does not exceed available appropriations. Education Law authorizes the Board to delegate the claims audit function and appoint a claims auditor to assume the Board's powers and duties for approving and disapproving claims against the District. The claims auditor must report directly to the Board. With limited exceptions, the District's Treasurer (Treasurer) must not make payment for claims without them first being approved by the claims auditor.

We found that the District was not functioning in accordance with its claims auditor policy because the claims auditor, an independent contractor appointed by the Board, does not report directly to the Board and does not confirm the availability of appropriations during his review of claims. Additionally, we determined that the Treasurer makes certain payments prior to the claims auditor's review. A separate supplemental warrant is provided to the claims auditor for his review and approval in the subsequent month, listing the payments that were prepared and made prior to his review. We examined a random sample of seven months of supplemental warrants that were prepared during our audit period to determine the extent to which claims are paid prior to the review and approval of the claims auditor. We found the District paid 45 such claims² totaling \$191,742 prior to review and approval by the claims auditor.

Although we reviewed all 45 payments for appropriateness and did not find any exceptions, the lack of effective internal controls over the claims auditing process increases the risk that improper claims may be paid against the District and go undetected and uncorrected.

Recommendations

1. The Board should ensure that District officials comply with the District's purchasing policy and award professional services contracts only after soliciting RFPs.
2. The Board should enter into written agreements with all professional service providers. These agreements should clearly state the terms of the contract stipulating the services to be provided and the basis for compensation.
3. The Board should ensure that the claims auditor performs his duties in compliance with District's claims auditor policy.
4. The Board should ensure that all disbursements are reviewed and approved by the claims auditor prior to the Treasurer making payment.

² According to Education Law, the Board can pass a resolution to pay certain items prior to audit. The law is not applicable to the payments included in our sample.

APPENDIX A

RESPONSE FROM DISTRICT OFFICIALS

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

BOARD OF EDUCATION

CHARLES FRENCH, *President*
JAMES STAHL, *Vice President*
TIMOTHY BREEYEAR
TERRIE DECKER
STACIE JAQUISH
ERICA KAZLO
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ADMINISTRATION

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VALERIE STAHL, *PreK-12 Principal*
THOMAS ANDERSON, *Dean of Students*
ALISON BURCH, *Dean of Students*
CARRIE LANGEY, *Dir. Spec. Services/
Asst. Principal*
ERIN GILBO, *Business Manager*
VALERIE MILDON, *District Treasurer*
TOM BREEYEAR, *Interim Head Custodian*
BRIAN CROSS, *Athletic Director*

Moriah Central School District

39 VIKING LANE PORT HENRY, NEW YORK 12974 (518) 546-3301 FAX: 546-7895

February 28, 2011

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

Dear [REDACTED]:

We are in receipt of the preliminary draft report of your audit of the Moriah Central School District for the period covering July 1, 2009 – August 31, 2010. The District appreciates the recommendations made as a result of this audit.

1. The Board should ensure that District officials comply with the District's purchasing policy and award professional services contracts only after soliciting RFP's.

Response: After reviewing the District's purchasing policy regarding the procurement of professional services, we have determined that a revision to the policy is necessary. It is not always beneficial to the District to solicit RFP's for some services, specifically special education services required by a student's IEP.

2. The Board should enter into written agreements with all professional service providers. These agreements should clearly state the terms of the contract stipulating the services to be provided and the basis for compensation.

Response: The District is in the process of ensuring that written agreements clearly stating job requirements, service dates and compensation are in place for all of our professional service providers.

3. The Board should ensure that the claims auditor performs his duties in compliance with District's claims auditor policy.

Response: The District is revising our claims auditor policy to exclude the requirement of confirming the availability of appropriations during the review of claims. This function is performed within the Business Office during purchasing and warrant processing.

4. The Board should ensure that all disbursements are reviewed and approved by the claims auditor prior to the Treasurer making payment.

Response: In the future, we will ensure that disbursements are reviewed and approved by the claims auditor prior to the Treasurer making payment.

A detailed corrective action plan is being finalized and will be forwarded in the near future. Please contact me with any questions or concerns.

Sincerely,



William J. Larrow
Superintendent of Schools

WJL/eg

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 oversight, 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 those areas most at risk. We selected professional services and claims auditing for further audit testing.

To accomplish the objective of this audit, our procedures included the following.

- We interviewed District officials and the District's claims auditor in order to obtain an understanding of the process for procuring professional services and auditing claims.
- We reviewed the District's purchasing and claims auditor policies.
- We obtained a listing of all vendors that received payments during our audit period and vendor summary reports.
- We selected a sample of 15 professional service providers determine if the District procured their services in accordance with District's purchasing policy and if the Board had entered into written agreements for their services.
- We tested all of the payments that were made during our audit period to the six professional service providers for which written agreements with the Board had been approved, to verify that the payments were made in accordance with the written agreements.
- We examined a non-biased sample of seven months of supplemental warrants that were prepared during our audit period to determine the extent to which claims are paid prior to the

review and approval of the claims auditor. We then reviewed these claims to verify that they were for appropriate District expenses.

We conducted our 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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