



Syracuse City School District Claims Audit Process

Report of Examination

Period Covered:

July 1, 2014 – March 31, 2016

2016M-290



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State of New York Office of the State Comptroller

Division of Local Government and School Accountability

October 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 Syracuse City School District, entitled Claims Audit Process. 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 recommendation 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 Syracuse City School District (District) is located in the City of Syracuse (City) in Onondaga County (County). The District is governed by the Board of Education (Board) which is composed of 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 District's chief executive officer and is responsible, along with other administrative staff, for the District's day-to-day management under the Board's direction.

The District operates 34 schools with approximately 21,000 students and 3,500 employees. The District's budgeted appropriations for the 2015-16 fiscal year were \$392.7 million, which were funded primarily with State aid, real property taxes and sales tax.

The District is a component unit of the City. The District has an inter-municipal agreement with the County to act as the purchasing officer on behalf of the City for the District. The District's purchasing practices are governed by the City Charter¹ and the District's purchasing policy and procedures. The Board has appointed a claims auditor and has adopted a policy to provide guidance to the claims auditor. The claims auditor reports directly to the Board and is responsible for formally examining, and allowing or rejecting, all accounts, charges, claims or demands against the District. The purchasing and claims audit approval process is generally paperless, using electronic accounting software.

Objective

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

- Are claims payments properly authorized, adequately supported and for a valid business purpose?

Scope and Methodology

We examined the District's claims auditing process for the period July 1, 2014 through March 31, 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

¹ New York State Education Law

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 recommendation 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 recommendation 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 Audit Process

Education Law requires the Board to audit all claims before they are paid,² or to appoint a claims auditor to assume the Board's powers and duties to examine and approve or disapprove claims. An effective claims audit process ensures that every claim is subjected to a thorough and deliberate audit, every claim contains enough supporting documentation to determine if it complies with statutory requirements and District policies, and the related goods or services were received and used for legitimate purposes. Purchase orders should be issued prior to ordering goods or services to ensure that purchases are authorized and preapproved and that adequate funds are available.

During our audit period, the District made 19,010 claim payments totaling \$197 million.³ We found that District officials established adequate controls to ensure claims are audited in a timely manner, properly authorized and for legitimate purposes. However, in some instances, purchase orders were not issued prior to ordering goods or services.

The County is the designated purchasing officer⁴ for the District and approves District purchases on behalf of the City. As such, the purchasing officer should approve purchases and generate purchase orders prior to District staff ordering the goods or services.⁵ Once a purchase is made, an accounts payable clerk (clerk) in the District Business Office assembles the claim package electronically by creating a voucher, uploading invoices and supporting documentation and linking the purchase order to the voucher. The clerk forwards the voucher and support to the claims auditor. The claims auditor conducts an audit of each claim before electronically approving it for payment to determine whether the goods or services billed were received and whether the claim is documented and supported (i.e., with an itemized invoice, purchasing requisition, documentation of receipt and purchase order).

² The Board may, by resolution, authorize payment in advance of audit for claims for public utility services (electric, gas, water, sewer and telephone), postage, freight and express charges. However, the claims must be audited by the claims auditor after the payment is made.

³ For 2014-15, the District disbursed 10,931 checks totaling \$107,574,495 and from July 1, 2015 through March 31, 2016, the District disbursed 8,079 checks totaling \$89,720,446.

⁴ Director of Purchasing of the County Division of Purchase

⁵ District purchasing procedures exempt travel costs, emergency purchases, tuition reimbursement, game official costs and game entrance fees from the purchase order requirement.

We selected and reviewed 120 claim payments⁶ with 327 associated vouchers totaling \$9,879,561 and reviewed 260 of the related vouchers totaling \$9,862,394. Except for minor deficiencies that we discussed with District officials, the claims were adequately supported, for legitimate District purposes and audited and approved prior to payment. However, the District did not have purchase orders for 15 vouchers totaling \$1,852,269.

Even though the claims auditor properly audited claims, the purchasing officer did not always approve purchases and generate the required purchase orders prior to the District ordering the goods and services. Although these purchases appeared to be reasonable and legitimate, the lack of purchase orders increases the risk that purchases will not be properly authorized and preapproved and that adequate funds will not be available.

Recommendation

1. District officials should ensure the purchasing officer generates and approves purchase orders prior to the District ordering goods and services that require purchase orders.

⁶ See Appendix B for our sample selection methodology.

APPENDIX A

RESPONSE FROM DISTRICT OFFICIALS

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



SYRACUSE CITY SCHOOL DISTRICT

Office of the Superintendent
725 Harrison Street · Syracuse, NY 13210
Phone 315·435·4161 · Fax 315·435·4015

Jaime Alicea
Interim Superintendent of Schools

October 11, 2016

New York State Office of the State Comptroller
Syracuse Regional Office
Attention: Chief Examiner Rebecca Wilcox
State Office Building, Room 409
333 East Washington Street
Syracuse, N.Y. 13202-1428

Dear Ms. Wilcox:

The Syracuse City School District is in receipt of and accepts the Office of the State Comptroller's Draft Report of Examination (Audit No. 2016M-290 - Claims Audit Process) for the period of July 1, 2014 – March 31, 2016. The Comptroller's Examiner reviewed the contents of the draft report with the Chief Financial Officer, Director of Accounting Services, and Claims Auditor, thoroughly discussing the one finding and associated recommendation as well as best practices to ensure proper documentation in a paperless procurement and accounts payable financial system. The District agrees with the finding and is currently improving processes and internal controls to address the finding which will be outlined in the Corrective Action Plan.

We appreciate the professional and efficient manner in which the Comptroller's staff conducted their audit fieldwork and follow-up.

Sincerely,

A handwritten signature in cursive script that reads "Jaime Alicea".

Jaime Alicea
Interim Superintendent

- c: Derrick Dorsey, President, Board of Education
Patricia Body, Vice President, Board of Education
David Cecile, Commissioner, Board of Education
Mark Muhammad, Commissioner, Board of Education
Dan Romeo, Commissioner, Board of Education
Rita Paniagua, Commissioner, Board of Education
Katie Sojewicz, Commissioner, Board of Education
Suzanne Slack, Chief Financial Officer

APPENDIX B

AUDIT METHODOLOGY AND STANDARDS

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

- We interviewed District officials to gain an understanding of the purchasing, claims auditing and payment processes and reviewed Board meeting minutes, policies and procedures and all monthly claims auditor reports to the Board.
- We selected a sample of 60 claims payments consisting of 144 vouchers totaling \$499,286 using a random number generator. We reviewed 128 of the related vouchers for 50 general fund claims payments totaling \$346,708, two cafeteria fund claims payments totaling \$28,778, seven federal fund claims payments totaling \$57,007 and one capital fund claim payment totaling \$54,464.
- We judgmentally selected 60 general fund claims payments consisting of 183 vouchers totaling \$9,380,275. We reviewed 132 of the related vouchers totaling \$9,375,437. We selected these claims because they posed a higher risk of being inappropriate expenditures or being paid without the prior approval of the claims auditor.
- We reviewed the sample of claims to determine if they contained proper approvals, contained sufficient supporting documentation including evidence the goods or services were received and were for legitimate purposes. We also determined whether they were audited and approved by the claims auditor prior to payment and if purchase orders were issued prior to ordering the goods and services.

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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AND SCHOOL ACCOUNTABILITY

Andrew A. SanFilippo, Executive Deputy Comptroller
Gabriel F. Deyo, Deputy Comptroller
Tracey Hitchen Boyd, Assistant Comptroller

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