

East Quogue Union Free School District

Claims Auditing

JUNE 2019



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

Contents

- Report Highlights 1**

- Claims Auditing 2**
 - What is an Effective Auditing Process? 2
 - The Claims Auditing Process Was Ineffective 2
 - What Do We Recommend? 4

- Appendix A – Response From District Officials 6**

- Appendix B – Audit Methodology and Standards 7**

- Appendix C – Resources and Services 9**

Report Highlights

East Quogue Union Free School District

Audit Objective

Determine whether claims were adequately supported and properly audited before payment.

Key Findings

The claims auditor:

- Did not audit and approve 301 claims totaling more than \$6.1 million before payment during the audit period.
- Did not sign the warrants on which 70 claims totaling \$988,677 were listed to indicate audit and approval.
- Approved 16 claims totaling \$835,152 for payment that were not sufficiently supported.

District officials did not:

- Ensure that the Board-adopted procurement policy was always followed.

Key Recommendations

- Ensure no claim, other than those allowed by law, is paid before audit and approval by the claims auditor.
- Conduct a thorough and deliberate audit of each claim before authorizing payment to ensure it is accurate and properly supported, and in compliance with required statutes and policies.
- Periodically report to the Board any deficiencies noted in the claims process.

District officials agreed with our recommendations and indicated that they have initiated corrective action.

Background

The East Quogue Union Free School District (District) is located in the Town of Southampton in Suffolk County.

The five-member Board of Education (Board) is responsible for general management and control of financial affairs. The Superintendent of Schools is the chief executive officer responsible for day-to-day management. The Business Official oversees the District's business operations including ensuring all goods and services are procured in the most prudent and economical way. The Treasurer is responsible for disbursing and maintaining District funds.

The Board appointed a claims auditor responsible for ensuring that claims are properly supported and meet procurement policy requirements.

Quick Facts

2017-18 Appropriations	\$24.4 Million
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Non-payroll Claims Processed During Audit Period	2,165
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Non-payroll Claims Processed During Audit Period	\$25.7 Million
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Audit Period

July 1, 2016 – April 30, 2018

Claims Auditing

What is an Effective Auditing Process?

New York State Education Law requires the board to audit all claims¹ against a district before they are paid² or to appoint a claims auditor³ to assume the board's powers and duties to examine and approve or disapprove claims. When a claim has been audited, a certificate of such audit shall be stated on a warrant of claims and signed by the claims auditor.⁴ A warrant lists the name of the claimant, the amount allowed, the budget code chargeable and any other information as deemed necessary and essential, directed to the district treasurer, authorizing and directing the treasurer to pay to the claimant the amount stated on the claim.

District policy requires the claims auditor to perform an independent, thorough and deliberate review of every claim against the District, in a timely manner, before authorizing payment and ensure that each claim contains adequate supporting documentation to determine whether the amounts claimed represent actual and necessary district expenditures and whether it complies with statutory requirements and the District procurement policy.

Purchase orders should be prepared and approved before purchasing goods or services to help control expenditures and ensure that purchases are properly authorized, competitive pricing policies⁵ have been complied with and adequate funds are available. Confirming purchase orders⁶ should not be allowed except for emergency purchases because such purchases circumvent the approval and price verification features of the normal purchasing process.

The claims auditor should report directly to the board and furnish periodic written reports. Establishing and adhering to effective claims auditing policies and procedures decreases the risk that errors or irregularities in processing and paying claims could occur and not be detected in a timely manner.

The Claims Auditing Process Was Ineffective

District purchases of goods and services generally require a requisition form approved by a supervisor and a purchase order approved by the purchasing

1 Except compensation for services of an officer or employee and debt service.

2 New York State Education Law (Education Law), Section 1724(3) allows a board, by resolution, to authorize payment in advance of audit for public utility services (electric, gas, water, sewer and telephone), postage, and freight and express charges. The claims for such prepayments should be audited as soon as possible after payment and included on the next warrant (list of claims scheduled for payment) as prepaid amounts.

3 Education Law, Section 1709 (20-a)

4 Education Law, Section 1724 (2)

5 The policy includes procedures for procuring goods and services that are not subject to competitive bidding requirements such as requiring three verbal quotes for goods and services procured between \$101 and \$1,000 and three written quotes for goods and services procured between \$1,001 and \$20,000.

6 A purchase order that is issued after the goods or services have already been ordered or received.

agent. To prepare the claims for audit, the accounts payable clerk (clerk) compiles supporting documentation (e.g., requisitions, purchase orders, invoices and competitive pricing information) into a claims package. When all supporting documentation has been received, the clerk then adds the claim to an electronically prepared warrant.

The claims packages and warrants are then presented to the claims auditor for audit and approval on a biweekly basis. Once the audit of claims is complete, the claims auditor signs the certificate of audit, stated on the warrant that authorizes and directs the Treasurer to pay the claims.

During our audit period, District officials paid 2,165 non-payroll general, school food service, special aid and agency fund claims totaling \$25.7 million. We reviewed the warrants from all four funds for a nine-month period⁷ that included 864 claims totaling \$10.5 million. To determine whether there were any unauthorized payments and whether claims were paid before they were audited and approved by the claims auditor we compared the date the claims auditor signed the warrant to the date the checks cleared the bank.

We found that claims were not always audited and approved before payment. We found that 301 claims totaling more than \$6.1 million were paid before the claims auditor's audit and approval. For example, 39 checks for claims totaling \$944,595 were dated December 5, 2017 but not audited until January 9, 2018. These checks cleared the bank an average of 28 days before the claims were audited and approved.

The claims auditor did not sign the warrants on which 70 checks for claims totaling \$988,677 were listed. In addition, three checks totaling \$924 cleared the bank, but were not listed on a warrant. We reviewed eight claims totaling \$822,658 from the unsigned warrants and found that the claims auditor had initialed and dated the individual claims, but failed to sign the warrant.

However, without a signed warrant the Treasurer is not authorized to pay the claims, and there is an increased risk that checks can be disbursed for inappropriate purposes and not be detected in a timely manner.

Due to these weaknesses, we reviewed 26 claims⁸ totaling approximately \$1 million to determine the effectiveness of the claims audit process. Although the claims auditor audited all these claims, we found one or more deficiency with 25 of these claims as follows:

- Purchase orders were missing from 16 claims totaling \$835,152. For example, the District paid \$717,015 for tuition to another school district

⁷ Refer to Appendix B for information on our sampling methodology.

⁸ Ibid.

without an attached purchase order or support to document the number of students attending. Without such support, the claims auditor could not be certain that the amount being paid was accurate and funds were available for the services provided.

- Confirming purchase orders were used for three claims totaling \$35,171. For example, officials paid \$1,685 to a vendor for heating, ventilation and air conditioning services. The purchase order was dated August 24, 2017 while the invoices were dated July 31, 2017, indicating that the services were rendered before the purchase order was approved.
- The contracts supporting five claims totaling \$214,757 were not attached or presented to the claims auditor for verification of the amounts to be paid. Although all these payments were made in accordance with the agreements, when the claims auditor does not review supporting contracts officials cannot be certain that claims are being paid according to the contract terms.
- Officials did not sign documentation for nine claims totaling \$6,773 to verify that the District received the items or services purchased.
- Required competitive pricing was not attached to six claims for purchases totaling \$3,156. For example, the District paid a vendor \$806 for a hearing aid without seeking competitive quotes, as required by the procurement policy.

Further, the claims auditor did not provide a report to the Board documenting all the deficiencies identified when performing the audit of claims. As a result, the Board does not have sufficient information to address deficiencies in the claims auditing and procurement processes.

Although all of these claims were for reasonable and for appropriate purposes, routinely paying claims without sufficient documentation, including purchasing documentation, circumvents internal controls and weakens the procurement and budget control process.

What Do We Recommend?

The Board should:

1. Discontinue allowing a claim, other than those permitted by law, to be paid before a thorough audit and approval by the claims auditor.
2. Require periodic reports from the claims auditor on any deficiencies identified in the claims audited.
3. Enforce its procurement policy by requiring that purchases are properly authorized, competitive pricing is obtained and adequate funds are available before goods and services are obtained.

The claims auditor should:

4. Conduct a thorough and deliberate audit of each claim before authorizing payment by verifying that amounts to be paid with corresponding contracts for accuracy, goods and services are actually received, and reviewing any other documentation necessary to conclude that the claim is an appropriate purchase.
5. Ensure that procurement policy procedures have been followed by verifying that each purchase contains an approved purchase requisition and purchase order dated before the procurement is made.
6. Prepare periodic reports to the Board that document deficiencies in the claims auditing process.

The Treasurer should:

7. Discontinue paying claims before they are audited by the claims auditor.

District officials should:

8. Ensure that appropriate procurement policy procedures are followed and that purchase orders are approved before procurements are made.

Appendix A: Response From District Officials

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Superintendent of Schools

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Mr. Ira McCracken
Office of the State Comptroller
250 Veterans Memorial Highway Rm. 3A10
Hauppauge, NY 11788-5533

May 6, 2019

Dear Mr. McCracken;

We are in receipt of the "Draft Audit of the East Quogue Union Free School District."

East Quogue Union Free School District hired a full time claims auditor effective July 1, 2018 to ensure compliance with all purchasing rules and regulations. The previous part time internal claims auditor due to illness could not fulfill the requirements in a timely manner, during the audit period. That deficiency has been cured.

We thank the NYS Comptroller Office for the recommendations on improving our internal controls.

The NYS Comptroller auditors assigned to the East Quogue School District during this audit have been most cordial, and highly knowledgeable on internal controls.

We thank the NYS Comptroller Office for their time and efforts in highlighting procedures to improve internal audit procedures.

If in the event, you have any further questions, or concerns, please do not hesitate to contact our office

Sincerely,

Bruce Singer
Business Official

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 reviewed the District's policies and procedures, interviewed District officials and employees to gain an understanding of procurement activities and the claims auditing process.
- We reviewed 864 non-payroll claim payments from the general, school food service, special aid and agency funds and the related warrants, checks and bank statements for nine judgmentally selected months during our audit period. The months we selected for testing included the last three months of 2016-17 (April, May and June 2017) and the first six months of 2017-18 (July, August, September, October, November and December 2017). We reviewed this supporting documentation for these months to determine whether there were any unauthorized payments and whether all checks clearing the bank were listed on a warrant.
- We reviewed the dates of all checks from our sample months and compared them to the dates they cleared the bank to determine whether the related claims were audited and approved before payment.
- We judgmentally selected 26 claims that were paid from the general, school food service, special aid and agency funds totaling approximately \$1 million. We reviewed these claims to determine whether the claims were audited before payment, payment amounts agreed with contract terms, payments were for appropriate purposes, District officials signed the claims indicating that the goods or services were received, required quotes were obtain, claims contained adequate supporting documentation (e.g., purchase orders, requisitions or confirming purchase orders).

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 relevant population size 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

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www.osc.state.ny.us/localgov/index.htm

Local Government and School Accountability Help Line: (866) 321-8503

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