

Madrid-Waddington Central School District

Claims Audit Process

MARCH 2019



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

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Report Highlights

Madrid-Waddington Central School District

Audit Objective

Determine whether claims were adequately documented, were for appropriate purposes and were properly audited and approved prior to payment.

Key Findings

- We reviewed 100 claims totaling \$886,642 and found the claims auditor did not audit two claims totaling \$251,601 for health insurance and Medicare reimbursement. In addition, two claims totaling \$17,848 were improperly paid prior to audit.
- The claims auditor did not audit and approve any of the District's health insurance claims and Medicare reimbursement payments, which totaled \$3.5 million.
- The claims auditor did not audit and approve 13 scholarship disbursements totaling \$5,700.

Key Recommendations

- Ensure that all claims for health insurance, Medicare reimbursements and scholarship payments are presented to the claims auditor for audit and approval prior to payment.
- Ensure no claims, other than those allowed by Law, are paid prior to the claims auditor's audit and approval.

District officials agreed with our findings and indicated they plan to initiate corrective action.

Background

The Madrid-Waddington Central School District (District) serves the Towns of Lisbon, Louisville, Madrid, Potsdam and Waddington in St. Lawrence County.

The nine-member Board of Education (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 and, along with other administrative staff, is responsible for the District's day-to-day management under the Board's direction.

The Board has delegated its claims auditing powers and duties to a claims auditor.

Quick Facts

Employees	125
Enrollment	697
2017-18 General Fund Appropriations	\$16 million
General, Special Aid, School Food Service and Capital Projects Voucher Payments for the audit period	\$9.3 million

Audit Period

July 1, 2017 - July 31, 2018

Claims Auditing

What is an Effective Claims Audit Process?

New York State Education Law (Education Law)¹ requires a board to audit all claims² before they are paid³ by the Treasurer 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 against a district is subjected to an independent, thorough and deliberate review and contains supporting documentation to determine whether it complies with statutory requirements and district policies and that the amounts represent actual and necessary expenditures. The claims auditor should determine whether the claims are properly itemized and supported and whether the district received the goods or services described on each claim. There are no exceptions to a claims audit provided for in Education Law⁴ for claims against money held by a board in trust, such as gifts for scholarships. As such, payments of scholarship trust funds are subject to audit requirements and the claims auditor should determine if payments are properly documented, supported and meet trust requirements.

The Claims Auditor Did Not Audit all Claims of the District

The District needs to improve its claims audit process to help ensure all claims are 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. The Treasurer prepares claim packets, which are reviewed by the Business Manager before being submitted to the claims auditor. After auditing the claims, the claims auditor stamps each individual claim with an approval for payment, a date and his signature that provides the Treasurer with written authorization to pay the approved claims. The claims auditor maintains a log book for each time he audits claims and documents any questions or issues identified during his review and the date the issue was resolved prior to payment.

However, health insurance claims and Medicare reimbursement payments to retirees do not go through the claims audit process. Changes to individual health insurance coverage are reviewed by the Business Manager throughout the year and the Treasurer compares monthly insurance invoices to individual coverage and payrolls. The Business Manager calculates Medicare reimbursements for retirees, but no one reviews the calculations prior to the Treasurer preparing and issuing the checks.

1 Section 1724 and Section 1709

2 Except compensation for services and debt service

3 Education Law, Section 1724 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.

4 Section 1724

In addition, scholarship payments do not go through the claims audit process. Gifts or bequests of cash are held in trust by the District for scholarship awards and the Business Office also receives cash gifts annually for scholarship payments. For certain trust funds, the trust representatives are responsible for selecting students to receive scholarship awards from student applications and essays, and any other applicable information. The representatives notify the Treasurer of their decisions. A scholarship committee⁵ selects students to receive scholarship awards from other trust funds. The Treasurer is the recorder for the committee and prepares a list of all awards for the Business Manager and Superintendent to review. Scholarship payments are processed by the Business Manager and Deputy Treasurer who provide the checks to the Treasurer to review and compare to the list of scholarship awards.

We reviewed 100 claims totaling \$886,642 (9 percent) paid during our audit period. We found that 96 of the claims totaling \$617,193 were audited and approved before payment, included evidence that goods and services were received, and were for legitimate District purposes and in accordance with District policies. Those claims were generally supported by adequate invoices and documentation.

However, this did not occur for a health insurance claim totaling \$250,965 and a Medicare reimbursement payment totaling \$636 because the claims auditor did not audit them prior to payment. The Business Manager told us District officials didn't think it was necessary to present the claims to the claims auditor, and instead relied on the reviews of the Business Manager and Treasurer. However, the claims auditor was required to conduct an independent and thorough audit of the claims to properly approve the payments and to help ensure appropriate fees are charged for those individuals eligible to receive health insurance and that Medicare reimbursements are proper. During our audit period, the District paid claims totaling \$3,313,264 for health insurance and \$141,082 in Medicare reimbursements that were not audited and approved by the claims auditor.

We also found two claims totaling \$17,848 were improperly paid prior to claims audit. A \$17,800 claim was for an auditorium sound system and a \$48 claim was for mileage reimbursement, which are not the types of claims authorized by Law to be paid in advance of audit.

Lastly, we identified 13 scholarship disbursements totaling \$5,700 for the audit period. We reviewed 11 payments totaling \$5,500 (96 percent). All of the awards we reviewed were approved by the trust representatives, adequately supported and complied with trust requirements. However, none of the scholarship payments were audited and approved by the claims auditor.

⁵ Consisting of a teacher from each department and the two District guidance counselors.

While we did not find any inappropriate payments, when claims are paid before or without claims auditor approval there is an increased risk for inaccurate or improper payments to occur.

What Do We Recommend?

District Officials should:

1. Ensure that all claims for health insurance, Medicare reimbursements and scholarship payments are presented to the claims auditor for audit and approval prior to payment by the Treasurer.

The Treasurer should:

2. Ensure no claims against the District, other than those allowed under Law, are paid prior to the claims auditor's audit and approval.

Appendix A: Response From District Officials

Madrid-Waddington Central School

Matt Daley
Elementary Principal



Eric Burke
Superintendent

Matt O'Bryan
Board President

Joe Binion
High School Principal



February 25, 2019

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

Re: Audit Response

Chief Examiner Wilcox:

Madrid-Waddington Central School District is in receipt of the draft Report of Examination, 2019M-1. The purpose of the audit was to determine whether claims were adequately documented, were for appropriate purposes, and were properly audited and approved prior to payment for the period of July 1, 2017 - July 31, 2018.

Madrid-Waddington Central School District is in agreement with the three (3) audit findings and has already implemented a corrective action plan to address the Key Recommendations.

The district greatly appreciates the professional manner in which the audit was conducted and the thorough guidance offered by the OSC Auditor based on her findings and recommendations.

Cordially,

Eric Burke
Superintendent of Schools

Matthew O'Bryan
Board of Education President

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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 assessed internal controls over the claims audit process by reviewing policies and procedures, reviewing Board meeting minutes and interviewing officials to gain an understanding of the claims audit process.
- We randomly selected a sample of 50 claims totaling \$171,865, using a computerized spreadsheet function, to assess whether the claims were for proper District purposes, adequately supported, contained evidence that the goods or services were actually received, were in compliance with Board-adopted policies, and were audited and approved prior to payment.
- We judgmentally selected an additional sample of 50 claims totaling \$714,777 paid during the audit period and reviewed them for the same concerns as in our other test sample. We selected a health insurance claim paid and claims that posed a higher risk for inappropriate District expenditures, such as payments to Board members or other District officials and unrecognized vendors.
- We identified 13 scholarship disbursements totaling \$5,700. We selected a test sample of the 11 highest dollar amount scholarship payments totaling \$5,500 and assessed whether they were approved by the trust representatives, adequately supported and in compliance with trust requirements.

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 size of the relevant population 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 District 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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