

Windham-Ashland-Jewett Central School District

Claims Audit Process

MARCH 2020



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

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Report Highlights

Windham-Ashland-Jewett Central School District

Audit Objective

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

Key Findings

The Board, District officials and the claims auditor could improve the audit of claims. We found:

- Of the 50 claims totaling \$528,778 we reviewed multiple claims, such as lack of itemized receipts or invoices and no evidence of bids or quotes.
- The claims auditor did not have well-defined duties and did not report claims audit results directly to the Board.

Key Recommendations

The Board and District officials should:

- Develop procedures to define the claims auditor's duties and provide guidance on the claims auditor's responsibilities.

The claims auditor should:

- Ensure that all claims contain sufficient supporting documentation before approving them for payment.
- Conduct a thorough and deliberate audit of each claim before authorizing payment to ensure it is accurate, for valid purposes and in compliance with required statutes and policies.

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

Background

The Windham-Ashland-Jewett Central School District (District) serves the Towns of Ashland, Durham, Jewett, Lexington, Prattsville and Windham in Greene County.

The five-member Board of Education (Board) is responsible for the general management and control of the District's financial and educational affairs. The Superintendent 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 Superintendent also serves as the purchasing agent.

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

Quick Facts

Employees	105
Enrollment	280
2018-19 General Fund Appropriations	\$12.2 million
Claim Payments for the Audit Period	890 checks totaling \$5,475,797

Audit Period

July 1, 2018 – June 30, 2019

Claims Auditing

What Is an Effective Claims Auditing Process?

New York State Education Law (Education Law)¹ requires a board of education (board) to audit all claims before they are paid or to appoint a claims auditor² to assume the board's powers and duties to examine and approve or disapprove claims. The law requires the claims auditor to report directly to the board. An effective claims audit process ensures that every claim against a district is subjected to an independent, thorough and deliberate review and contains adequate supporting documentation to determine whether it complies with statutory requirements, district policies and that the amounts claimed represent legitimate and proper district expenditures.

A board should establish a policy which details all of the claims auditor's duties and specifically explains any responsibilities mentioned within the policy. For example, it is important for the claims auditor to determine whether the claims are properly itemized and supported and whether the district received the goods or services described on each claim by reviewing detailed receipts, invoices and receiving documentation. The claims auditor should compare the claim with the related purchase order to determine whether purchasing agent approval was obtained prior to purchasing and the amount billed agrees with the purchase order, bid or quote. An effective claims process helps control expenditures and ensure that purchases are properly authorized, that competitive pricing policies have been complied with and that adequate funds are available in the budget. A claims auditor should report findings or deficiencies found during claims audit process to the board to assist the board in monitoring compliance with the district's purchasing procedures.

The Claims Auditor Did Not Have Well Defined Duties

The District appoints a claims auditor at the annual Reorganizational Meeting. The District has adopted a policy entitled "Audit of Claims" to serve as guidance to the claims auditor in performing her duties. The policy requires the claims auditor to review the claims packet and ensure that:

- The claim was signed by the purchasing agent.
- The receiving copy of the purchase order is signed and dated, indicating receipt of the good or service.

¹ Education Law, Section 1724 provides an exception to the claims audit requirement for compensation paid to officers or employees and debt service. It also 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.

² Education Law, Section 1709

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- The amounts are correct and do not include taxes, available discounts are taken and transportation charges (where applicable) are accurate.
 - The charges are not for items that have already been paid.
 - The claim is for a valid and legal purpose.
 - The price per item billed (invoice) does not exceed the bid or contract amount.

However, the policy did not include specific procedures for reviewing a claim packet that require the claims auditor to ensure the District's purchasing policies are being followed, that open purchase orders had not exceeded the amount available, and that itemized receipts, packing slips and signed delivery slips are attached to a claim when appropriate.

The claims auditor was not aware that the law requires her to report directly to the Board. Instead, she was reporting the findings to the Superintendent, who is the purchasing agent and responsible for the oversight of the purchasing process, who in turn, was reporting to the Board.

Because the policy did not contain well-defined duties, the claims auditor was not aware that she should report directly to the Board. Further, without specific procedures for auditing claims, there is an increased risk that claims will not contain adequate documentation or be properly audited and approved.

Audited Claims Did Not Always Have Sufficient Documentation

We selected the corresponding claims for 50 check disbursements totaling \$528,778 for review. These claims included payments to the Superintendent, other District employees and selected purchases of consumables. In the sample we selected we did not find any inappropriate payments for claims that were approved for payment by the claims auditor; however, we determined that several claims had multiple issues:³

³ Claims discussed within the report may be discussed in multiple sections as many have various issues.

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- Twenty-two claims totaling \$207,449 did not contain evidence that District officials had obtained bids or quotes as required by the District's purchasing policy.⁴ For example, the claims for the following purchases lacked documentation of soliciting bids or quotes:
 - Security cameras system and camera licensing totaling \$23,079,
 - Textbooks totaling \$59,826,
 - Tools totaling \$14,528,
 - Sports equipment totaling \$18,555, and
 - Electrical installation services totaling \$13,800.
 - Five gasoline claims totaling \$8,349 were not paid from invoices but rather from account activity from the vendor's webpage with random cut off dates. There was no review or written reconciliation to ensure the activity on account activity obtained was not paid on prior claims.
 - Ten claims totaling \$35,491 were paid that had exceeded the total amount approved on 10 related open purchase orders. This occurred because the claims auditor did not keep a running total to determine how much had already been applied to the open purchase orders.
 - Five claims totaling \$13,951 lacked supporting documentation. Four claims totaling \$13,879 were for amounts that did not match the amount charged on the invoice and one claim was \$72 higher than approved because the number of items was incorrect.
 - Thirty claims totaling \$189,096 lacked documentation of goods or services received, as well as itemized receipts. Some examples include:
 - Sixteen claims for services totaling \$122,841 did not contain evidence of departmental approval.
 - Eight claims totaling \$64,850 for the purchase of propane, gasoline, fuel oil and diesel did not have itemized receipts or signed delivery slips attached to the claim.

The claims auditor informed us that some of these issues were a result of not being aware of certain requirements when auditing claims. This occurred because the policy lacked specific procedures regarding the claims auditor's duties. Therefore, the claims auditor did not have adequate guidance.

⁴ The policy requires bidding all purchase contracts for supplies, materials and equipment involving expenditures in excess of \$20,000 and all contracts for public works in excess of \$35,000. Verbal quotes are required for purchases between \$1,000 to \$1,500 and two to five written quotes are required for purchases between \$1,501 to \$20,000.

Because of the number of deficiencies relating to supporting documentation for fuel purchases, we reviewed an additional 15 fuel claims paid by the District during our audit period totaling \$68,113. We found all 15 claims had at least one exception. For example:

- Gasoline claims totaling \$8,321 had no receipt attached to the claim that was presented and approved by the claims auditor for payment.
- Claims totaling \$58,194 had no signed delivery slip attached to the claim. These claims included two for fuel oil totaling \$1,490, seven for propane totaling \$51,998 and four for diesel totaling \$4,706.

The Department of Transportation Supervisor did not attach the signed delivery slips or itemized receipts for fuel to the claims. Therefore, the claims auditor could not verify that the amounts claimed were supported by signed delivery slips to provide assurance that deliveries of diesel fuel occurred.

When claims are paid without adequate supporting documentation there is an increased risk that claims may not be for legitimate District purposes, that the goods or services may not have been received, that the District will pay more than the authorized and expected purchase amount or inappropriate claims could be paid. Furthermore, when claims are paid that do not comply with the procurement requirements in District's purchasing policy, the District could pay more than necessary for goods and services.

What Do We Recommend?

The Board and District Officials should:

1. Develop procedures to define the claims auditor's duties and provide guidance on the claims auditor's responsibilities.

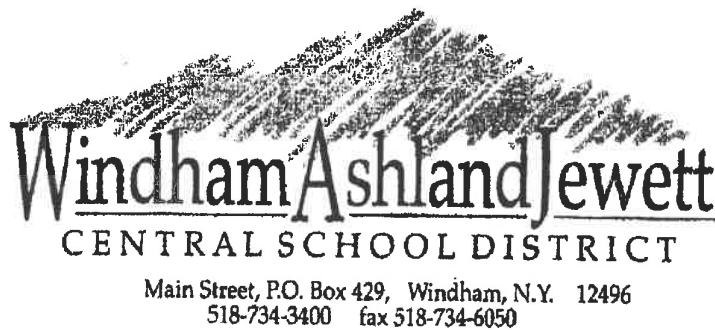
The claims auditor should:

2. Ensure that all claims contain sufficient supporting documentation before approving them for payment.
3. Conduct a thorough and deliberate audit of each claim before authorizing payment to ensure it is accurate, for valid purposes and in compliance with required statutes and policies.
4. Report claims audit findings directly to the Board on a regular basis.

Appendix A: Response From District Officials

John Wiktorko
Superintendent

Tammy Hebert
Assistant Superintendent



David Donner
Building Principal

Michelle Mattice
Business Official/Treasurer

March 4, 2020

Ms. Lisa Reynolds, Chief Examiner
New York State Office of the Comptroller
Newburgh Regional Office
33 Airport Center Drive Suite 103
New Windsor, New York 12553

Re: Response to Preliminary Draft Findings

Dear Ms. Reynolds:

The Windham-Ashland-Jewett CSD is in receipt of the preliminary draft audit regarding the claims audit process presented on February 5, 2020. Please accept this letter as our preliminary response to your findings and recommendations.

The Windham-Ashland-Jewett CSD is committed to incorporating best practice suggestions made by the auditors. Our District accepts the findings of the preliminary report and subsequent exit interview discussions.

The Windham-Ashland-Jewett CSD is pleased that the audit found no significant issues in the areas reviewed. Our staff will work to implement the recommendations provided. While the District will forward the corrective action plan within the requisite timeline to your office, as discussed in the exit conference, we have already implemented many of your suggestions pertaining to the claims auditor position.

As in the past, we appreciate your feedback. Thank you.

Yours truly,

WINDHAM-ASHLAND-JEWETT CENTRAL SCHOOL DISTRICT

John Wiktorko, Superintendent

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 minutes and interviewing officials to gain an understanding of the claims audit process.
- We used our professional judgment to select 50 claims totaling \$528,778 to determine whether the claims were for proper 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 before payment.
- We used our professional judgment to select an additional sample of 15 claims for fuel purchases totaling \$68,113 paid during the audit period that posed a higher risk for inappropriate expenditures or lack of supporting documentation. We reviewed the 15 claims for the same attributes as our sample of 50 claims.
- We assessed internal controls over the fuel by interviewing officials to gain an understanding of the fuel reconciliation process.

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.

The Board has the responsibility to initiate corrective action. 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-a(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 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 CAP should be posted on the District's website for public review.

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

Office of the New York State Comptroller
Division of Local Government and School Accountability
110 State Street, 12th Floor, Albany, New York 12236

Tel: (518) 474-4037 • Fax: (518) 486-6479 • Email: localgov@osc.ny.gov

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

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

NEWBURGH REGIONAL OFFICE – Lisa A. Reynolds, Chief Examiner

33 Airport Center Drive, Suite 103 • New Windsor, New York 12553-4725

Tel (845) 567-0858 • Fax (845) 567-0080 • Email: Muni-Newburgh@osc.ny.gov

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