

Downsville Central School District

Claims Auditing

NOVEMBER 2022



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

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Report Highlights

Downsville Central School District

Audit Objective

Determine whether the Downsville Central School District (District) Board of Education (Board) and District officials ensured claims were properly audited before payment.

Key Findings

The Board and District officials did not always ensure claims were properly audited before payment. We reviewed 150 claims packets totaling \$870,798 and found claims totaling \$700,507 were not properly audited. This included the following:

- 69 claims, including credit card purchases, totaling \$275,846 were audited after the checks had cleared the bank.
- The claims auditor approved one claim packet totaling \$13,613 which had previously been paid.
- Officials did not obtain the minimum number of quotes for nine claims totaling \$18,628.

Key Recommendations

- Ensure checks are mailed after the claims auditor has audited and approved the claims.
- Ensure that all claims contain sufficient supporting documentation before approving them for payment.
- Ensure officials and staff clearly document compliance with the District's procurement policies and procedures.

District officials generally agreed with our recommendations and indicated they took corrective action.

Background

The District serves the Towns of Andes, Colchester, Hamden, Hancock, Tompkins and Walton in Delaware County.

The District is governed by an elected five-member Board, which 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 and, along with other administrative staff, is responsible for the District's day-to-day management under the Board's direction.

The Business Manager oversees the District's business operations and the Principal Account Clerk (Clerk) is responsible for processing claims. The Board appointed a claims auditor responsible for ensuring that claims are properly supported and meet procurement policy requirements.

Quick Facts

2021-22 Appropriations	\$11.1 million
Claims Processed During the Audit Period	
Number of Claims Packets	1,458
Dollar Amount of Claims	\$8.8 million

Audit Period

July 1, 2020 – March 31, 2022

Claims Auditing

What Is an Effective Claims Audit Process?

An effective claims audit process ensures that every claim against a school district is subjected to an independent, thorough and deliberate review. It further ensures that each claim contains enough supporting documentation to determine whether it complies with statutory requirements and school district policies (e.g., procurement policy) and that the amounts claimed represent actual and necessary school district expenditures.

Generally, a school district board is required to audit all claims before they are paid or appoint a claims auditor to audit and approve the school district's claims. A board may delegate the claims audit function by appointing a school district employee, independent contractor or an individual employed through an intermunicipal cooperative agreement or through shared services, to the extent authorized by law, to audit the school district's claims. An appointed claims auditor is required to report directly to the Board.

Officials should ensure the Board's adopted claims auditor policy (Policy) is adhered to. The Policy serves as guidance for the claims auditor in performing their duties. The Policy requires the claims auditor to report directly to the Board and it outlines the claim auditor's responsibility to approve or reject each claim prior to payment. It also requires the claims auditor to determine whether the:

- Proposed payment is for a valid and legal purpose;
- Obligation was incurred by an authorized District official;
- Items for which payment is claimed were in fact received or, in the case of services, that they were actually rendered;
- Obligation does not exceed the available appropriations; and
- Submitted voucher is in proper form, mathematically correct, does not include previously paid charges and agrees with the purchase order or contract upon which it is based.

The District's procurement policy outlines the purchasing process for goods and services not required by law to be bid. The procurement policy requires that goods and services not subject to competitive bidding be secured by written requests for proposals, written quotations or verbal quotations, depending on dollar amounts.

The Claims Auditor Did Not Properly Audit Claims

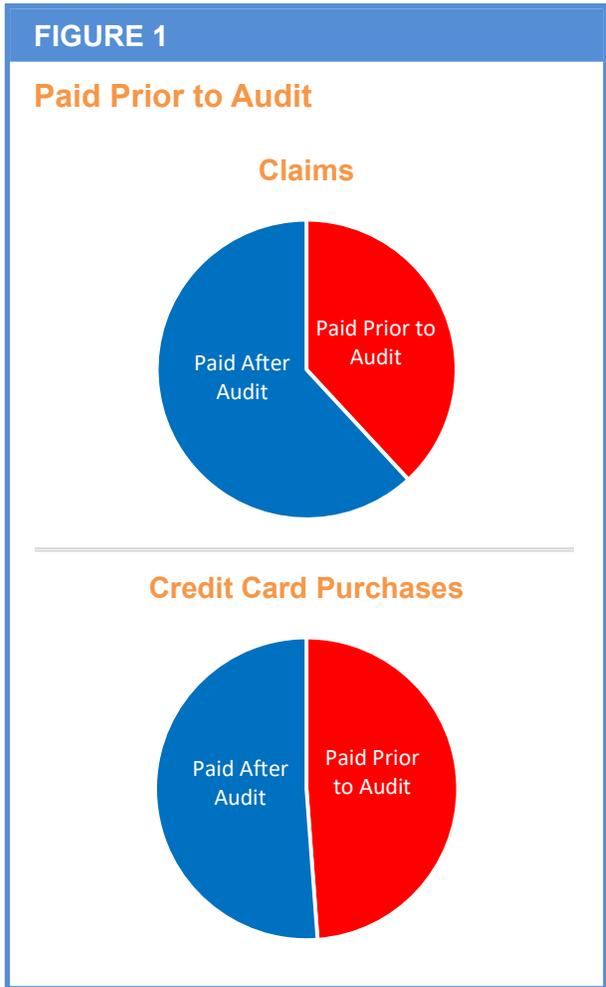
We reviewed 150 claims packets totaling \$870,798, including 72 claims with 293 credit card purchases totaling \$38,169, to determine whether they were properly audited. We found claims that were paid prior to audit and lacked adequate support and one claim packet was paid twice.

Claims Paid Prior to Audit – Because we could not determine the date that checks were mailed to vendors, we used the date that checks cleared the bank for our testing that showed at least 28 claims (36 percent) totaling \$260,631 and 127 credit card purchases (43 percent) totaling \$15,215 were paid before they were audited and approved by the claims auditor (Figure 1). Because District staff may have mailed more checks before claims were audited and approved by the claims auditor, this number might be higher.

The Business Manager was not aware that checks were mailed to vendors prior to a claims audit. When checks are mailed before the claims are audited, the effectiveness of the claims audit process is diminished and there is an increased risk that improper or deficient claims could be paid. He told us that because the claims auditor was at a different location, it was difficult to provide the claims auditor with all necessary documentation in a timely manner, however each claim must be audited prior to payment.

Inadequate Support – Forty-five claims (58 percent) totaling \$571,066 and 133 credit card purchases (45 percent) totaling \$16,325 lacked adequate support, such as purchase orders, signed receiving slips, properly itemized invoices, or evidence that officials complied with the District’s procurement policy.

- 39 claims totaling \$412,770 and 127 credit card purchases totaling \$14,523 did not have a purchase order attached to the claims packet.
- 11 claims totaling \$215,008 and eight credit card purchases totaling \$2,309 did not have signed documentation indicating the goods and/or services were received.
- 13 credit card purchases totaling \$2,130 did not have itemized invoices attached to the claims packet.
- Nine claims requiring verbal quotes totaling \$18,628 did not contain evidence that District officials complied with the procurement policy.
- Two claims totaling \$6,808 had purchase orders created after the invoice dates.



District officials and employees told us that claims lacked support because they did not include blanket purchase orders, did not require department managers to sign for services received, did not print out all invoices and did not retain proof of quotes received and include all documentation with the claims packet. If the claims auditor is not provided with sufficient supporting documentation, he cannot carry out the essential functions of his job, which include determining whether claims are valid District expenditures and in compliance with the District's procurement policy.

Duplicate Payment – One claim packet for fuel oil totaling \$13,613 was paid twice. After we informed the Business Manager the claim was paid twice, he contacted the vendor to ensure the District's account was properly credited.

We interviewed Board members and found the claims auditor did not report findings to the Board, as required. Instead, the claims auditor included notes on issues he found with the claims on the warrant. However, the warrant was never provided to the Board for review. The claims auditor told us that the Board had not requested reports, so he did not submit reports to the Board. When the Board does not ask for or review warrant reports and the claims auditor does not report findings to the Board, identified issues may go unresolved.

The claims auditor told us that he only reviewed documentation District officials provided him because they should be knowledgeable enough to send everything that was required. Furthermore, he indicated that he was not provided access to the District's financial application to enable him to verify the availability of funds or determine whether claims were previously paid. However, the claims auditor should not rely on District officials to include required documentation and should request documentation that is lacking or missing prior to approving claims for payment.

Because the claims auditor did not perform an accurate and complete review of claims, there is an increased risk that goods and services may not have been received or were not purchased at the best value, and inappropriate claims could have been paid.

What Do We Recommend?

The Board should:

1. Ensure the claims auditor is provided access to District records to verify the availability of funds, quotes and previously paid claims.
2. Properly monitor the claims auditor to help ensure all claims, as required, are audited and approved by the claims auditor before payment.

The Superintendent and Business Manager should:

3. Ensure that officials and staff comply with the District's procurement policies and procedures and clearly document the compliance and use a competitive process when bidding is not required.

District officials should:

4. Obtain verbal and written quotes and ensure that proper documentation is maintained.

The claims auditor should:

5. Conduct a thorough and deliberate audit of each claim in accordance with the Board-adopted policies.
6. Ensure that claims contain sufficient supporting documentation before approving them for payment.
7. Report claims audit findings directly to the Board on a regular basis.

Appendix A: Response From District Officials



November 4, 2022

Ann C. Singer, Chief Examiner
State of New York
Office of the State Comptroller
110 State Street
Albany, NY 12236

REPORT NUMBER: 2022M-134

Dear Ms. Singer:

The Downsville Central School District has appreciated the time that the State Comptroller's Office put in during this audit.

The collegial nature of the audit provided the District with valuable information and recommendations that allowed the District to quickly put into place additional, and in some cases, new processes to address concerns related to the Comptroller's auditor's findings.

Most importantly, the District hired a new claims auditor as of July 2022 that has been provided with comprehensive training regarding the importance of their role and how to conduct a thorough audit of the claims. This has resulted in improvement of the quality of the information in the claims packet. In addition, the Board of Education is now receiving a monthly report directly from the Claims Auditor regarding any findings. All of this has resulted in substantial improvements in the overall purchasing and claims processing done by the District on behalf of their stakeholders.

Sincerely,

Robert Rhinehart
Superintendent

RR/jml

We, the Downsville Central School Community, will be a high achieving, evolving educational environment responsible for building a foundation of trust, fairness, and consistency by working collaboratively to inspire and nurture each individual's passion, voice, and character for life-long success.

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 interviewed District officials and employees involved in the purchasing process to gain an understanding of the District's accounts payable and procurement practices.
- We interviewed the claims auditor to gain an understanding of the claims audit process.
- We reviewed the Board's adopted policies and written procedures to determine whether they addressed procuring goods and services not subject to competitive bidding, complied with statutory requirements and provided sufficient guidance for the claims auditor.
- From a population of 1,458 claims packets, we used our professional judgment to select 150 claims packets totaling \$870,798, including 72 claims with 293 credit card purchases totaling \$38,169. We selected our sample to include claims from various procurement policy and competitive bidding thresholds, claims with similar payment amounts and all credit card purchases. We reviewed each claims packet to determine whether the claim was audited and approved before payment; for a legal and valid purchase; included signed documentation indicating goods and services were received; previously paid in full or in part; adequately supported; and in compliance with Board-adopted policies.
- From the 150 claims packets selected, we reviewed support for vendors who had aggregate claims between \$2,000 and \$19,999 to determine whether they were competitively procured. This included 30 claims totaling \$148,764. We identified eight claims totaling \$44,050 that were sole source which included science curriculum material, software licenses and transportation planning updates, through records and conversations with District officials. These eight claims were not tested to determine whether they were competitively procured.

We conducted this 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.

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/files/local-government/pdf/regional-directory.pdf

Cost-Saving Ideas – Resources, advice and assistance on cost-saving ideas

www.osc.state.ny.us/local-government/publications

Fiscal Stress Monitoring – Resources for local government officials experiencing fiscal problems

www.osc.state.ny.us/local-government/fiscal-monitoring

Local Government Management Guides – Series of publications that include technical information and suggested practices for local government management

www.osc.state.ny.us/local-government/publications

Planning and Budgeting Guides – Resources for developing multiyear financial, capital, strategic and other plans

www.osc.state.ny.us/local-government/resources/planning-resources

Protecting Sensitive Data and Other Local Government Assets – A non-technical cybersecurity guide for local government leaders

www.osc.state.ny.us/files/local-government/publications/pdf/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/local-government/required-reporting

Research Reports/Publications – Reports on major policy issues facing local governments and State policy-makers

www.osc.state.ny.us/local-government/publications

Training – Resources for local government officials on in-person and online training opportunities on a wide range of topics

www.osc.state.ny.us/local-government/academy

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