



Walkill Central School District

Claims Auditing

2023M-52 | September 2023

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Report Highlights

Wallkill Central School District

Audit Objective

Determine whether the Wallkill Central School District (District) claims auditor ensured claims were adequately supported, properly authorized, approved before payment, for valid purposes and properly reported to the Board of Education (Board).

Key Findings

The claims auditor did not ensure claims were adequately supported, properly authorized, approved before payment, for valid purposes and properly reported to the Board. We reviewed 100 claims totaling \$1.7 million and determined:

- None were reviewed for sufficient budget appropriations, which could result in budget lines being overspent.
- 58 totaling \$1.6 million did not have sufficient supporting documentation, which could result in paying a claim that is not valid and legal.
- 11 warrants (lists of claims) totaling \$464,801 were not included in the claims auditor reports to the Board. As a result, the Board was not aware of all claims paid.

The claims auditor's deficiencies with auditing claims creates a risk that the District could pay for invalid claims. In addition, the claims auditor has a family relationship with a Board member. As a result, the District's claims auditor cannot serve in this position.

Key Recommendations

- Conduct a thorough and deliberate audit of all claims to ensure that they contain sufficient budget appropriations and supporting documentation before approving them for payment.
- Ensure the claims auditor report provided to the Board is accurate and complete.
- Ensure the claims auditor and acting claims auditor meet the requirements for eligibility for appointment.

District officials generally agreed with our findings and indicated they plan to initiate corrective action. Appendix B includes our comments on certain issues officials raised in their response.

Background

The District serves the Towns of Shawangunk, Plattekill and Gardiner in Ulster County and the Towns of Montgomery and Newburgh in Orange County.

The District is governed by a nine-member Board responsible for the District's financial and educational affairs.

The Superintendent of Schools (Superintendent) is the chief executive officer responsible for the District's day-to-day management. The Assistant Superintendent for Support Services (Assistant Superintendent) oversees the District's business operations, including the accounts payable department, which is responsible for processing claims.

The Board-appointed claims auditor is responsible for ensuring that claims are properly supported and meet procurement policy requirements. The Board also appointed an acting claims auditor as a backup to the claims auditor, who, according to District officials, is intended to be the last line of defense for preventing unauthorized, improper or fraudulent claims from being paid.

Quick Facts

2020-21 Appropriations	\$77.7 million
Number of Claims Paid During the Audit Period	5,628
Amount of Claims Paid During the Audit Period	\$30.4 million

Audit Period

July 1, 2020 – December 31, 2021

Claims Auditing

How Should Claims Be Audited?

The District's Internal Claims Auditor Policy requires the school district official responsible for auditing claims to review each claim to determine whether the:

- Claim is for a valid and legal purpose,
- Purchase is authorized and approved,
- District has sufficient appropriations to pay the claim,
- Claim is mathematically correct,
- Claim is sufficiently itemized,
- Claim meets the legal and policy requirements in relation to competitive bidding,
- Adopted policies are followed, including the requirements that alternative proposals or quotations be obtained through a request for proposals (RFP) process, written or verbal quotations or any other appropriate method of procurement,
- Information regarding purchases made by using a State, county or other permissible government contract is included on the claim form,
- Sales tax for exempt expenses are not charged,
- Claim includes all discounts to which the District is entitled,
- Claim has not been previously paid,
- Attached documentation supports the claim being audited, and
- Goods or services were actually received.

Generally, a school district board (board) must audit all claims before they are paid or appoint a claims auditor to audit and approve the district's claims. A board may delegate the claims audit function by appointing a 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 district's claims.

To facilitate the proper audit of claims, the Board appointed a claims auditor and an acting claims auditor at the annual reorganizational meeting and adopted a policy to serve as guidance for the claims auditor in performing her duties. The policy requires the claims auditor to formally examine claims packets to ensure that they meet its requirements.

The Claims Auditor Did Not Perform a Proper Audit of Claims

The claims auditor did not perform a proper audit of claims. We reviewed 100 claims totaling \$1.7 million and found at least one deficiency with each claim. The claims auditor did not review budgeted appropriations to ensure sufficient appropriations were available for any of the 100 claims reviewed because she was not provided access to the District's financial application to verify availability of funds, nor was she aware she should request this access. In addition, the claims auditor did not ensure all claims were authorized and supported. We determined 58 of the claims reviewed totaling \$1.6 million did not contain sufficient supporting documentation for the claims auditor to perform an accurate and complete review.

For example, 30 claims totaling \$33,266 did not contain evidence that District officials complied with the District's claims and purchasing policies and procedures. Specifically:

- 20 claims totaling \$24,694 did not have a purchase order, such as electric and maintenance-related fees totaling \$12,430.
- Five claims totaling \$6,999 related to Medicare reimbursements had claims forms attached; however, the forms did not have signatures indicating the claims were authorized and approved.
- Five claims totaling \$1,573 did not have a claim form attached to the corresponding voucher packet. These included claims for a payroll tax penalty bill and several credit card purchases.

Additionally, there were 12 claims totaling \$19,753 for which packing slips or signed delivery tickets were not present. For five claims totaling \$14,736, invoices did not contain sufficient detail for the claims auditor to determine the type and quantity of goods and/or services received.

Further, the claims auditor did not ensure the District solicited competition while procuring goods and services. A sole source vendor is one in which there was only one viable vendor available to provide the good or service at the time of purchase. Six claims totaling \$16,043 were indicated as sole source on the corresponding purchase orders. These sole source claims included claims for the fire alarm system and sound system for graduation. However, no evidence was shown supporting the sole source designation, and the claims auditor was not aware that these were considered sole sources.

In addition, the claims auditor approved 14 claims totaling \$75,177 that utilized a piggyback contract. A piggyback contract is an exception to General Municipal Law's competitive bidding requirements and allows school districts to procure certain goods and services through the use of other governmental contracts.

Although the purchase orders indicated that piggyback contracts or sole source vendors were used, the claims auditor stated that she did not know what the contract information and sole source indication on the purchase orders meant and did not follow up to ensure the claims were adequately supported.

Ten claims totaling \$854,769 were subject to the RFP process in accordance with the District's policy. None of these claims contained evidence that RFPs were issued. In addition, 10 claims totaling \$10,621 required verbal quotes, but had no documented evidence that quotes were obtained.

The claims auditor stated that she approved claims for vendors that the District frequently did business with because she thought the District had contracts with them. However, she did not verify the contracts existed and did not review the contract terms if a contract did exist. In addition, the District typically would not initiate purchase orders for maintenance-related purchases. The claims auditor believed these purchases or claims were acceptable to be approved as long as there were appropriate District officials' signatures on the invoices. The claims auditor stated that if she saw appropriate signatures on the invoices, she assumed the goods and services were received. However, with respect to Medicare reimbursement claims, officials' signatures were not required on the claims forms. As a result, the claims auditor approved them because the Assistant Superintendent verbally approved the claim amounts at the beginning of the fiscal year and if eligible retirees provided sufficient documentation (e.g., Social Security statement).

The claims auditor told us that she believed it was the purchasing agent's job to ensure that the District's purchases complied with the District's purchasing policy and, therefore, she did not need to review documentation to determine whether purchases were properly procured. However, it is also the claims auditor's responsibility to ensure that District policies were adhered to prior to payment of a claim. In addition, the claims auditor stated she did not receive any training on how to effectively audit claims and had no prior experience with this type of work before accepting the position.

When the claims auditor does not ensure sufficient appropriations are available, there is an increased risk that the District could exceed budgeted appropriations. Further, when claims are paid without adequate supporting documentation, there is an increased risk the District could incur unnecessary costs or pay for goods and services that were not actually received or were not for proper District purposes. In addition, when the claims auditor does not ensure that a competitive process is being used to procure goods and services and adherence to the District's procurement policy, there is an increased risk that goods and services may not be procured in the most cost-effective manner, to ensure the most prudent and economical use of public money, without favoritism.

When the claims auditor does not ensure sufficient appropriations are available, there is an increased risk that the District could exceed budgeted appropriations.

How Should the Claims Auditor Report to the Board?

The claims auditor should periodically report the results of their review of claims to the board, including providing the lists of claims reviewed (warrants) and any discrepancies found. Therefore, if a problem arises that can be addressed within the board's powers and duties, the problem and its eventual resolution can be discussed with the board. Examples of problems that the claims auditor would indicate in the claims auditor report include:

- Purchase orders exceeding available budgetary appropriations.
- Sales tax added on a claim.
- Medicare reimbursements to retired staff members do not document the retiree's continued qualification.

The Claims Auditor Did Not Always Provide Sufficient Claims Auditor Reports

The District Clerk provides the claims auditor reports and an electronic version of the warrants to the Board monthly. The claims auditor reports identify which warrants that the claims auditor reviewed and any mistakes she discovered. We randomly selected five months during our audit period and compared the claims auditor reports to the 41 related warrants, totaling \$5.5 million, generated for those months. We determined 11 warrants totaling \$464,801 were not reported in the claims auditor reports to the Board and were also not provided to the Board. Therefore, the Board did not receive any information regarding these 11 warrants.

Ten of these warrants totaling \$304,711 were signed by the acting claims auditor. Generally, the acting claims auditor reviews time-sensitive claims that are paid by using checks that are printed outside of the normal check run and are physically signed off by the Assistant Superintendent and the Treasurer. The claims auditor told us that she did not communicate with the acting claims auditor and, therefore, did not include warrants approved by the acting claims auditor in her reports. One warrant totaling \$160,090, signed by the claims auditor, was not included in the claims auditor report due to an oversight.

Without proper reporting to the Board, problems found during claims auditing cannot be discussed amongst the Board and be resolved.

Who Is Prohibited from Being a Claims Auditor?

A close or immediate family member of an employee, officer or contractor providing services to the district cannot be appointed to the claims auditor position in accordance with Title 8 Part 170.12 of the New York Codes, Rules and Regulations (NYCRR). The term "school officer" includes, but is not limited to, a clerk, collector or treasurer of any school district; a trustee; a superintendent

A close or immediate family member of an employee, officer or contractor providing services to the district cannot be appointed to the claims auditor position. ...

of schools; other elected or appointed officer in a school district whose duties generally relate to the administration of affairs connected with the public school system; and a member of a board of education or other body in control of the schools.

The Claims Auditor Is Not Eligible to Hold the Position

The claims auditor is not eligible for the position because she is a Board member's mother. However, we did not find any documentation in the minutes indicating that the Board member or claims auditor disclosed the relationship.

In addition to selecting District payments to the claims auditor for review, we searched the claims auditor's surname in the disbursement data to identify any potential reimbursements or other payments to the claims auditor's immediate family members made during the audit period. We identified 19 claims for reimbursements to the claims auditor and her immediate family members¹ totaling \$8,295. We reviewed the claims to determine whether they were approved by the acting claims auditor, instead of the claims auditor, to avoid the appearance of impropriety. All 19 reimbursements were approved by the claims auditor. Although these claims were legitimate and supported, such transactions may create an appearance of impropriety and, as best practice, District officials should consider having the acting claims auditor approve reimbursements that involve the claims auditor.

The Board President told us that everyone on the Board knew about, and had no concerns with, the claims auditor's relationship with the related Board member. However, the lack of concern does not validate the Board's decision to not comply with the NYCRR. In addition, the Board was not aware of the NYCRR's prohibition of an immediate family member of certain District officials from serving as the claims auditor.

Although we found all claims for the claims auditor and her family members were legitimate and supported, the claims auditor is not eligible to hold such a position.

What Do We Recommend?

The Board and District officials should:

1. Provide the claims auditor and acting claims auditor with adequate training to understand the role and duties of the claims auditor position.
2. Ensure the claims auditor and acting claims auditor meet the requirements for eligibility for appointment.

¹ The claims auditor has four family members who worked for the District. Two are currently on the payroll, one is a Board member, and the fourth is receiving Medicare reimbursement payments.

-
3. Require the acting claims auditor to approve all reimbursements made to the claims auditor and her immediate family members.

The claims auditor should:

4. Ensure sufficient appropriations are available and that all claims contain sufficient supporting documentation before approving them for payment.
5. Conduct a thorough and deliberate audit of each claim before authorizing payment.
6. Ensure all warrants are included in the claims auditor report to the Board.

Appendix A: Response From District Officials

WCSD



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Kevin Castle
Superintendent of Schools

Anthony White
Assistant Superintendent
for Educational Services

Tara Rounds
Assistant Superintendent
for Special Education and Intervention Services

Brian Devincenzi
Assistant Superintendent
for Support Services

September 5, 2023

State of New York
Office of the State Comptroller
Newburgh Regional Office
33 Airport Center Drive, Suite 102
New Windsor, NY 12553

Dear Ms. Disko-McCadd,

On behalf of the Board of Education, we appreciate the opportunity to respond to the Internal Claims Audit performed for our District that was conducted by your office. I would like to commend the audit team for their professionalism and courtesy in undertaking their responsibilities and interacting with District personnel throughout the entire audit process. The purpose of this letter is to address the draft results and recommendations in this report.

It should be noted that while the report did not state explicitly, it was verbally shared with the District that no improper payments were made and all claims being audited were appropriate and payments to vendors were accurate.

See
Note 1
Page 10

One finding noted in your report were that claims did not have proper supporting documentation. In response, the District has created a checklist that will be used when auditing each packet. By creating this checklist, the internal claims auditor will have an easy reference to ensure that all necessary documentation is attached to each packet prior to approval for payment being given. Additionally, the District has internal controls in place to ensure that budget lines are not overspent. If funds are required in a budget line, budget transfers are made to ensure budget lines are not overspent. In fact, at the end of each fiscal year, the District has had zero fiscal stress as reported in the Comptroller's Annual Fiscal Stress Report.

In the audit report, it was stated there were items that were noted as sole source but were incorrectly identified on the purchase order. The District did have proper documentation for the purchases noted in the report such as payments to the bus contractor. The District conducted a joint RFP for bus contracting services and awarded the contract based on the results of the RFP. The contract was approved by New York State Education Department and the contract payments were accurate based on the contract.

See
Note 2
Page 10

The draft report discussed purchases initiated through the maintenance department that did not have purchase orders. Health and safety purchases were made as emergency situations arose resulting in no purchase order. Notwithstanding, the District has initiated open purchase orders to vendors where purchases can be made in an emergency especially during non-business hours.

See
Note 3
Page 10

It was noted that several warrants were not reported to the Board. These warrants were audited and approved prior to payment; however, they were inadvertently not submitted to the District Clerk. The District will implement additional internal controls to ensure all warrants are provided to the Board.

The District was unaware of law preventing the individual from holding the position of internal claims auditor due to their relation to a board member. When the District was made aware, the District immediately appointed a new internal claims auditor in October 2022. In addition, the payments approved by the internal claims auditor to individuals related to the internal claims auditor had no evidence of fraud. The payments made for Medicare reimbursement were verified by the Assistant Superintendent for Support Services and the Senior Account Clerk who oversees benefits. Notwithstanding this, the District will ensure that the spreadsheet that is audited is initialed to confirm that the file has been reviewed prior to the internal auditor reviewing the claim.

See Note 1 Page 10

One of the recommendations was for the new internal claims auditor to receive training. The District has not only supplied the individual with internal training but also had the individual attend several outside trainings. The District wanted to ensure that the new internal claims auditor received training in order to assist them with the claims auditing process.

The District receives two reports performed by the internal auditor annually. A complete internal audit is performed as well as agreed upon tested areas. Each year, the District has received positive reports from the internal auditors. Furthermore, the District's external auditor, which performs an annual external audit, has commended the District for its business operations and commitment to protecting District assets from loss and misuse. Notwithstanding, we welcome the opportunity to strengthen and improve our internal control procedures relative to the internal claims audit process where it is necessary.

The Wallkill Central School District is dedicated to the efficient and effective use of taxpayer approved resources. We appreciate and welcome recommendations and feedback from our internal and external auditors as well as the Office of the State Comptroller to help assist us in the overall management of the District and work towards the best interest of the Wallkill community.

Sincerely,

Joseph LoCicero
Board of Education President

Kevin Castle
Superintendent of Schools

BD/sh

Appendix B: OSC Comments on the District's Response

Note 1

Examiners made no assertions that all claims were appropriate and accurate. In addition, we conducted a limited review of District claims; therefore, the District's broad conclusions cannot be drawn.

Note 2

After officials received the draft audit report, they provided additional information. We reviewed the information and updated the report accordingly.

Note 3

The District's records do not support the purchases were for emergency health and safety purposes.

Appendix C: 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 Board members, District officials, including the claims auditor and acting claims auditor, and other employees, and reviewed policies, procedures and Board meeting minutes to gain an understanding of the District's process to prepare, approve, audit and pay claims.
- We reviewed Board minutes to determine whether the Board member who is related to the claims auditor disclosed the relationship to the Board and recused himself from voting on the claims auditor's annual appointment.
- We interviewed the claims auditor and acting claims auditor to determine whether they were provided with adequate training and whether the claims auditor followed the Board-adopted policies, Board and OSC guidelines, and statutory requirements.
- We used the District's cash disbursement data to randomly select 100 claims totaling \$1.7 million. We reviewed these claims to determine whether they were properly itemized, had valid and legal purposes, were authorized and approved, had adequate supporting documentation, were mathematically correct, were in accordance with District policies and statutory procurement requirements, did not include sales tax charges, included all discounts to which the District was entitled, had not been previously paid, and whether the goods and services had been received.
- We reviewed canceled check images of the sampled 100 claims totaling \$1.7 million and determined whether the check payee, address and amount corresponded to the voucher packet information.
- We randomly selected five of the 18 months during the audit period and reviewed the Board meeting minutes from the selected months and requested the corresponding certified warrants and claims auditor reports to the Board. We determined whether the warrants were signed by the claims auditor or acting claims auditor authorizing payments of claims. We reviewed the claims auditor reports to determine whether they were adequate and timely reported to the Board.
- We identified 19 reimbursements to the claims auditor and her immediate family members made during the audit period and reviewed the related vouchers to determine whether they were approved by the acting claims auditor. In addition, we determined whether the reimbursements were legitimate and supported.

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 D: 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

Contact

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