



West Babylon Union Free School District

Claims Audit

2024M-62 | September 2024

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Report Highlights

West Babylon Union Free School District

Audit Objective

Determine whether the West Babylon Union Free School District's (District) claims auditor properly audited claims.

Key Findings

The claims auditor did not perform a proper audit of claims. As a result, there is an increased risk that goods and services may not have been received, and incorrect or inappropriate claims could be paid.

We reviewed 86 claims totaling \$10 million and determined that:

- 73 claims totaling \$9.8 million had one or more deficiencies, including confirming purchase orders (POs) (issued after goods or services were received, rather than having POs approved before good or services were acquired) and inadequate supporting documentation.
- 21 claims totaling \$3.1 million were not audited prior to payment in accordance with New York State (NYS) Education Law Section 1724.
- The claims auditor did not report directly to the Board, did not note exceptions on the warrant and did not include all exceptions on her monthly reports.

Recommendations

The audit report includes five recommendations to help improve the District's claims audit process.

District officials agreed with our recommendations and indicated they have begun implementing corrective action. Appendix B includes our comment on an issue raised in the District's response letter.

Audit Period

July 1, 2021 – May 31, 2023. We extended our scope period to September 30, 2023, to review recently approved claims.

Background

The District is located in the Town of Babylon in Suffolk County and is governed by an elected nine member Board of Education (Board), responsible for overseeing financial and educational affairs.

The Superintendent of Schools is the chief executive officer and is responsible, along with other administrative staff, for the day-to-day management under the Board's direction.

The Assistant Superintendent for Finance and Operations (ASFO) oversees the District's business operations including the accounts payable department which is responsible for processing claims. The current ASFO was appointed in July 2022.

The Board-appointed claims auditor is responsible for ensuring that claims are properly supported and funds are authorized, and for providing periodic reports to the Board.

Quick Facts

| Claims Processed During Audit Period | |
|--------------------------------------|--------------|
| Total Claims | 6,934 |
| Total Amount | \$91,972,709 |
| Claims Reviewed | 86 |
| Amount Reviewed | \$9,999,802 |

Claims Audit

What Is an Effective Claims Audit Process?

A proper claims audit is a thorough and deliberate examination of a claim to determine that a claim is a legal obligation and a proper charge against the school district. A claim packet should contain enough detail and documentation so that the auditing body or official is supplied with sufficient information to make that determination. Generally, a school board is required to audit all claims before they are paid, or the board must appoint a claims auditor to assume the board's powers and duties to examine and approve or disapprove claims. A claims auditor should audit every claim against the school district before payment to determine whether the claim is properly itemized and supported and whether the school district received the goods and/or services described. In accordance with New York State (NYS) Education Law Section 1724, a board, by resolution, may 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.

Officials should ensure each claim packet has sufficient supporting documentation, including agreed-upon prices, itemized receipts or invoices and an acknowledgment of the receipt of goods or services. When a state, county or other government contract is used, the contract number should be referenced on the claim. A claim packet normally includes an authorized PO, invoice, receiving documentation and other appropriate documentation for each claim generated such as a Board-approved contract, and evidence of a competitive method used to purchase goods. The claims auditor must review the invoices to ensure they are mathematically correct, sufficiently itemized, acknowledged as received and invalid charges such as sales tax or other invalid charges against the District are not incurred.

After a claims auditor approves the claims, they should certify a warrant (list of claims) authorizing the Treasurer to pay the claims and stating the number and dollar amount of claims approved for payment. The claims auditor should report all findings and deficiencies found during the claims audit process directly to the board, to assist the board in monitoring compliance with the school district's policies.

The Board appointed a claims auditor to audit and approve claims for payment and adopted policies to serve as guidance for the claims auditor in performing their duties. The policy requires the claims auditor to report directly to the Board with periodic reports, and it outlines the claims auditor's responsibility to approve or reject each claim prior to payment. Among the duties of the claims auditor are to determine whether the proposed payment is for a valid and legal purpose; obligations are incurred by authorized officials and do not exceed available

appropriations; goods or services are in fact received; the claim is in proper form, mathematically correct, and does not include previously paid charges; and agrees with the purchase order or contract upon which the charge is based.

Claims Were Not Properly Audited and Approved

The accounts payable department provides the claims auditor with claims and supporting documentation, along with the warrant for review about every two weeks. The claims auditor explained that if she finds a discrepancy with a claim, she will reach out to the accounts payable clerk to obtain more information. If the discrepancy cannot be addressed that day, she leaves a note for accounts payable staff, outlining the deficiency with the claim and the documentation needed to release the claim. However, the claims auditor stamps the claim as approved for payment and signs the certification on the warrant in full without indicating which claims are held. In addition, accounts payable staff stamp these claims as paid, prior to the claims being released for payment. The next time the claims auditor returns to the district, if the requested documentation or information is provided, she will release the claims for payment. If the issue cannot be resolved prior to the date the claims auditor prepares the monthly report, it will be included on the report. The claims auditor does not keep a record of the claims held and they are not reported to the Board.

We examined the claims auditor's certification on 180 warrants totaling almost \$92 million. The claims auditor signed and dated all the warrants. Generally, the claims auditor entered the full dollar amount of the warrant as certified without reducing the amount by the claims not approved; however, 18 warrants did not state the dollar amount in the certification. In addition, none of the warrant certifications indicated the number of claims approved for payment or claims held and not approved. For example, on December 6, 2022, the claims auditor certified a warrant in the full amount of \$3,268,637. Included on the warrant was a claim for \$25,500 that the claims auditor held because the claim lacked supporting documentation (e.g., a copy of the contract). However, the claims auditor stamped the claim approved for payment on December 6, 2022, and the accounts payable staff stamped the claim paid on December 7, 2022, although the claim was not actually approved or paid. The claims auditor included the claim on her report to the ASFO, stating that the claim needed to be supported by a contract for professional services. The contract necessary to support the claim was not approved by the Board until March 14, 2023, three months later, at which time it was actually paid.

Because the claims auditor does not document which past claims were held, we reviewed claims currently being held by the accounts payable staff on the warrants certified on September 12, 2023. The claims auditor held 18 claims totaling \$398,959. Fifteen of these claims totaling \$345,317 were stamped

approved for payment on September 12, 2023, and the warrants were certified for the full amounts on the same date. The claims auditor indicated that any claims she rejected at the time were eventually resolved, so she did not believe she had to specify the number of claims or amounts that she rejected. In addition, if the claims are resolved and released before she completes her monthly report, they are not included on her reports to the Board. However, this practice does not give the Board and officials complete information to assist in improving procedures to ensure that all claims submitted for payment have sufficient support and comply with District policies.

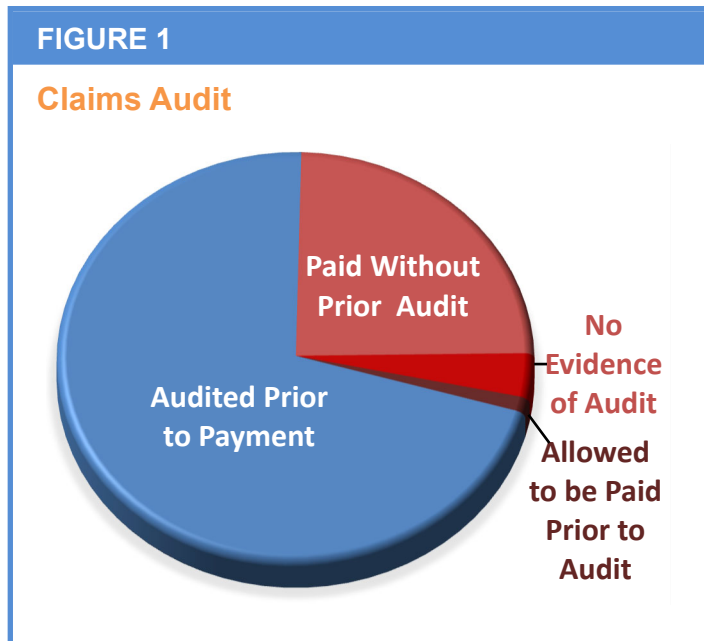
We reviewed¹ 86 claims totaling almost \$10 million. While all claims reviewed appeared to be for appropriate District purposes, we determined that 73 claims totaling \$9.8 million had one or more deficiencies. Deficiencies included confirming POs subsequent to the date of purchase² and missing documentation such as: POs not attached to the claim; evidence of competition such as quotes or request for proposals; evidence of a contract, receiving documentation and evidence the claims auditor reviewed and/or approved the claim.

The claims auditor indicated that this occurred because if an item such as a PO or contract is not attached to a claim, she can generally view additional information in the accounts payable office. While the claims auditor may have been able to obtain and view additional documentation to ensure the claim is valid, because support is not then attached or noted on the claim, the claim does not contain sufficient documentation to support her decision to approve the claim.

Furthermore, 21 of the 86 (24 percent) claims totaling \$3.1 million were paid before they were audited and three claims totaling \$135,486 did not show evidence they were approved by the claims auditor (Figure 1). The claims approved prior to audit included payments for credit cards, health insurance, professional services, fuel and IT services, which are not among those authorized by NYS Education Law to be paid prior to audit. The ASFO explained that in some cases a claim will be paid before audit to avoid late payments. The payment of these claims prior to audit was not included in the report to the Board.

1 We selected 87 claims for review; however, one claim totaling \$6,365 could not be located. See Appendix C for more information on our sampling methodology.

2 Invoice date prior to authorization to purchase.



Because the claims auditor did not perform a proper review of claims and claims were paid prior to audit, claims were paid that were not properly authorized or supported. As a result, there is an increased risk that goods and services may not have been received, and incorrect or inappropriate claims could be paid.

The Claims Auditor Did Not Report Directly to the Board

The claims auditor prepares and sends a monthly report to the ASFO rather than the Board. However, the business office sends the reports to the Board quarterly. Furthermore, the claims auditor does not include all exceptions, only items that cannot be resolved by business office officials.

We reviewed the claims auditor reports as presented to the ASFO and compared them to the reports approved by the Board to determine if there were any differences between the two reports. Generally, there were only minor differences. However, one claim, listed on the claims auditor's August 2021 report, was removed from the report sent to the Board. The claims auditor reported that a claim for a professional service provider was not approved because the contract should be approved and signed by the board. The claims auditor approved removing the exception from the August report in October 2021 after the contract was approved by the Board. Because the reports are submitted quarterly to the Board by the business office, the Board did not receive the reports in a timely manner. For example, reports prepared by the claims auditor for April and May 2023 were not approved by the board until 154 days and 125 days later, respectively. The claims auditor told us that she had always prepared and sent her reports monthly to the ASFO. The claims auditor did this in part to ensure

District officials had an opportunity to resolve any issues she flagged as an exception. However, because the claims auditor reported to the business office, the claims auditor's independence was diminished, and the Board was delayed in receiving the reports and complete information.

When the claims auditor does not report all findings and deficiencies directly to the Board, identified issues may go unresolved. Giving the Board more complete information allows the Board to monitor compliance with existing policies, and if needed, make changes to policy or require that additional procedures be implemented.

What Do We Recommend?

The Board should:

1. Ensure that the claims auditor reports directly to the Board.

The claims auditor should:

2. Report directly to the Board all claims with exceptions.
3. Ensure that claims contain sufficient supporting documentation prior to stamping the claim as approved for payment.
4. Include the number of claims and dollar amount of claims approved for payment when certifying each warrant.

District officials should:

5. Ensure that only those claims authorized by law to be paid prior to audit are approved prior to payment.

Appendix A: Response From District Officials



West Babylon Schools

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200 Old Farmingdale Road
West Babylon, NY 11704
Phone (631) 376-7701
Fax (631) 376-7709

Dr. Yiendhy Farrelly
Superintendent of Schools

Denise M. Gillis
Assistant Superintendent for Finance & Operations

Public Response to the Comptroller's Office

September 12, 2024

Mr. Ira McCracken, Chief of Municipal Audits
Office of the State Comptroller
NYS Office Building, Room 3A10
250 Veterans Memorial Highway
Hauppauge, New York 11788-5533

Dear Mr. McCracken,

Please accept this letter as the West Babylon Union Free School District's official response to the draft report of examination (2024M-62), entitled Claims Audit, conducted by the New York State Comptroller's Office for the time period July 1, 2021 - May 31, 2023.

On behalf of the Board of Education and the District's administration, we would like to thank the local field staff of the Comptroller's Office. They were professional and courteous in conducting their duties associated with the Audit during the entrance conference, the entire on-site audit, and the exit conference.

District officials have carefully reviewed the draft report and met with the auditors assigned to the audit to discuss all the findings and recommendations. The West Babylon Union Free School District is in agreement with the observations of the NYS OSC audit. As expected the report does not suggest any findings of operational improprieties, fraud, misappropriation of funds, or malfeasance.

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| See Note 1 Page 10 |
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Prior to the receipt of the draft audit report, we implemented additional procedures, provided staff training and most importantly hired a new claims auditor as of July 2024. We will continue to ensure that every claim packet includes an authorized purchase order, approved invoice, receiving documentation and other appropriate documentation to support the claim. The newly hired claims auditor has provided comprehensive training to our staff to ensure proper purchasing procedures are followed in accordance with District policy, General Municipal School Law, Office of Comptroller & New York State Education Department Guidance.

Since this audit response is in agreement with the audit findings and recommendations, this response will also serve as the **corrective action plan (CAP)**.

The following is the corrective action plan for each recommendation made in the draft audit report:

Audit Recommendation #1: The Board of Education should ensure that the claims auditor reports directly to the Board.

Implementation Plan of Action: The NEW claims auditor will provide monthly pdf audit reports to the District Clerk. The District Clerk will accept the audit report on behalf of the Board of Education and submit the report monthly on the Board agenda.

Implementation Date: A new claims auditor has been appointed July 2024 and has provided monthly claims audit reports to the District Clerk starting in August, 2024.

Person Responsible for Implementation: The Board of Education.

Audit Recommendation #2: The Claims Auditor should report directly to the Board all claims with exceptions.

Implementation Plan of Action: The claims auditor should include all claims with exceptions to the Board of Education monthly noting any exceptions, claims being held for lack of documentation or claims voided due to improper payment.

Implementation Date: A new claims auditor has been appointed July 2024 and has provided monthly claims audit reports to the District Clerk starting in August, 2024 noting any exceptions identified during the audit of claims.

Person Responsible for Implementation: The claims auditor.

Audit Recommendation #3: The Claims Auditor should ensure that claims contain sufficient supporting documentation prior to stamping the claim as approved for payment.

Implementation Plan of Action: The District has taken immediate action to ensure that all claims contain sufficient supporting documentation, are properly authorized and approved in compliance with school district policies, prior to approval for payment. In July 2023, the District implemented a new process in which all payments must have a purchase order attached to the invoice, invoices must have a signature and signifying that all items have been received prior to payment. The District's purchasing agent provided the District staff with documented purchasing procedures and updated forms to strengthen the purchasing procedures and approvals in December 2023. In January 2024, the District's purchasing agent provided training to all staff responsible for processing requisitions and approving requisitions. To further strengthen the claims processing procedures, the District appointed a new claims auditor. The claims auditor has provided comprehensive training to our staff in August 2024 to ensure proper purchasing procedures are followed in accordance with District policy, General Municipal School Law, Office of Comptroller & New York State Education Department Guidance.

Implementation Date: The District implemented additional procedures to ensure all claims contain sufficient supporting documentation in December 2023 and provided staff training in January 2024. The claims auditor was appointed July 2024 and provided comprehensive training to District staff August 2024.

Person Responsible for Implementation: The claims auditor.

Audit Recommendation #4: The Claims Auditor should include the number of claims and dollar amount of claims approved for payment when certifying each warrant.

Implementation Plan of Action: A new claims auditor has been appointed July 2024 and will provide monthly claims audit reports to the District Clerk starting in August 2024. Each warrant will include the number of claims and dollar amount of claims approved for payment on the warrant. In addition, this information will be included in the monthly claims audit report provided to the Board of Education by the District Clerk.

Implementation Date: A new claims auditor was appointed in July 2024. The claims auditor included the number of claims and dollar amount of claims approved for payment when certifying each warrant starting in July 2024.

Person Responsible for Implementation: The claims auditor.


Audit Recommendation #5: District officials should ensure that only those claims authorized by law to be paid prior to the audit are approved prior to payment.

Implementation Plan of Action: The District has immediately implemented procedures to ensure that the District is only processing claims authorized by law to be paid prior to the audit. The purchasing agent verifies all claims are audited by the claims auditor prior to payment. In addition, the District follows NYS Educational Law 1724, noting Board Policy 6410, the District may authorize payment in advance of audit for public utility services (electric, gas, water, sewer and telephone), postage and freight and express charges. These claims for such prepayments are audited as soon as possible after payment and included on the next warrant.

Implementation Date: This corrective action has already taken place and was implemented in December 2023.

Person Responsible for Implementation: Purchasing agent and purchasing account clerk.

Respectfully,


Dr. Yvondhy Farrelly, Superintendent


Mr. Chris Paolillo, Board President

Appendix B: OSC Comment on the District's Response

Note 1

The audit objective focused on whether the District's claims auditor properly audited claims. The audit team assessed the risk of fraud occurring that is significant within the context of this audit objective, as required by generally accepted government auditing standards. Therefore, these audit results cannot be used to conclude there is no fraud, theft or professional misconduct in the District's operations.

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. We obtained an understanding of internal controls that we deemed significant within the context of the audit objective and assessed those controls. Information related to the scope of our work on internal controls, as well as the work performed in our audit procedures to achieve the audit objective and obtain valid audit evidence, included the following:

- We interviewed District employees and the claims auditor to obtain an understanding of the claims audit process and to obtain any related policies and procedures.
- From a population of 6,934 claims totaling \$92 million, we used our professional judgment to select a total sample of 87 claims for audit testing totaling \$10 million. After eliminating all claims under \$150, we selected a sample to include credit card claims, high dollar value claims and claims listed on demand warrants. We used a periodic selection method to select an additional 45 claims from the remaining population.
- We reviewed all selected claims to determine whether the claims were: for an appropriate District purpose, properly authorized and approved, adequately supported, mathematically correct, sufficiently itemized, contained evidence that the goods or services were received, in compliance with Board-adopted policies and audited and approved before payment.
- We compared the claims auditor's monthly reports to the Board-accepted quarterly reports to determine discrepancies.
- We reviewed 180 warrants to determine when the claims auditor certified the warrants, the number of claims reviewed from those warrants, and any claims rejected for payment.
- We reviewed the claims auditor's reports, warrants and additional claims being held by accounts payable while we were in fieldwork, to determine if claims were held but still approved.
- We compared any deficiencies noted in our testing to the claims auditor's reports to determine if the claims auditor reported them to the Board.

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

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

www.osc.ny.gov/local-government/publications

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

www.osc.ny.gov/local-government/fiscal-monitoring

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

www.osc.ny.gov/local-government/publications

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

www.osc.ny.gov/local-government/resources/planning-resources

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

www.osc.ny.gov/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.ny.gov/local-government/required-reporting

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

www.osc.ny.gov/local-government/publications

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

www.osc.ny.gov/local-government/academy

Contact

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