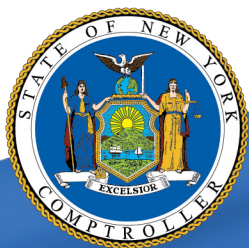


Brookfield Central School District

Claims Audit Process

MARCH 2018



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

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Report Highlights

Brookfield 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

- The Board appointed two of its members to audit claims rather than the entire Board as required by Education Law.
- All 100 claims we reviewed, totaling \$1,517,352, were paid prior to audit.
- Not all individual claims are being reviewed during audit.

Key Recommendations

- Audit claims as an entire Board as required by Education Law, or appoint a claims auditor.
- Ensure that claims paid prior to audit are authorized under Education Law.
- Review each claim prior to authorizing payment.

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

Background

The Brookfield Central School District (District) serves the towns of Bridgewater, Brookfield, Columbus, Hamilton, Madison and Sangerfield in Chenango, Madison and Oneida Counties. The five-member Board of Education (Board) is responsible for managing the District’s operations. The Superintendent of Schools is responsible for the District’s day-to-day management.

The Board has not appointed a claims auditor, so it is responsible for examining, and allowing or rejecting, all accounts, charges, claims or demands against the District.

Quick Facts

Enrollment	235
2017-18 Budgeted Appropriations	\$6.2 million
Employees (Full- and Part-time)	47

Audit Period

July 1, 2016 – September 30, 2017

Claims Audit Process

What is an Effective Claims Audit Process?

New York State Education Law (Education Law) requires school boards to audit all claims before they are paid or to appoint a claims auditor to assume the board's powers and duties to examine and approve or disapprove claims. If a board does not appoint a claims auditor and elects to perform the claims audit function, all board members must audit each claim and be familiar with the claims audit process. Education Law does not allow a board to assign the claims audit duty to a single board member, a rotation of different members, or a board subcommittee.

An effective claims processing system ensures that every claim is subjected to an independent, thorough and deliberate review and contains adequate supporting documentation to determine whether it complies with statutory requirements and district policies, and that the amounts claimed represent actual and necessary district expenditures. In addition, 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.

Education Law allows a board, by resolution, to authorize payment in advance of audit for public utility services (electric, gas, water, sewer and telephone), postage, freight and express charges and petty cash payments. The claims for such prepayments should be audited as soon as possible after payment and included on the next warrant¹ as prepaid amounts.

The District Did Not Establish an Effective Claims Audit Process

The District Treasurer assembles the claim vouchers, which include invoices and supporting documentation, and provides them to an account clerk at the Oneida-Herkimer-Madison Board of Cooperative Educational Services. The clerk enters the payments into the computerized accounting system, generates the warrants and prints checks. Prior to mailing checks, the Treasurer compares the consistency of information among the checks, claims and warrants.

The Board adopted a resolution designating the Board President and another Board member to audit claims on its behalf and evidence their audit by signing the warrant. The Board President told us he reviews claims to ensure they contain adequate supporting documentation and are for legitimate purposes, and then signs the warrant to evidence his review. He acknowledged, however, he does not review every claim. Rather, the Board President reviews specific claims only when questions arise such as unrecognized vendors or unreasonable or high dollar amounts as shown on the warrant. In addition, he acknowledged that he reviews claims after several warrants have been generated.² Therefore, claims are paid

¹ A warrant is a listing of claims scheduled for payment.

² The District generates a warrant approximately every two weeks.

prior to audit. The Board President communicates the results of his review and any findings to the rest of the Board during its meetings. District officials indicated that the second Board member appointed to audit claims serves as a back-up and does not routinely audit claims. District officials also told us that the Board reviews the audited warrant during Board meetings and that claims are available for review upon request.

Education Law does not provide the Board with authority to delegate the claims auditing responsibility to one (or two) of its members, and it generally requires the claims to be audited prior to payment. Because the Board does not audit claims prior to payment, errors or irregularities in processing and paying claims could occur and not be identified in a timely manner. Also, if all claims are not audited, inappropriate payments³ could occur without detection.

In addition, the Board adopted a resolution authorizing the Treasurer to pay certain claims without going through the routine audit process, which included the payment in advance of audit for health insurance, credit card claims, other payments necessary to avoid late payment charges, and reimbursements to replenish the petty cash fund. The Superintendent and a Board member told us that they were not aware such payments³ could not be paid in advance of claims audit.

We reviewed 100 claims totaling \$1,517,352⁴ paid during our audit period and found all claims and corresponding warrants were paid prior to audit.⁵ Claims, on average, were reviewed 56 days, or almost two months after payment. For example, one warrant totaling \$57,312 was audited 130 days, or over four months, after payment. In addition, 15 claims totaling \$680,210 were still not audited as of the end of fieldwork. However, we also determined that claims were generally supported by adequate invoices and documentation, included evidence that the goods or services were received, and were for legitimate District purposes and in accordance with District policies. In addition, warrants that included our sampled claims were properly signed by the Board President. Our testing disclosed only minor deficiencies, which we discussed with District officials.

When the Board improperly allows payments in advance of claims audit, and does not ensure that all claims are audited, there is an increased risk that claims could be paid for unsupported charges or for charges that are not for valid District purposes.

³ While the Board may establish petty cash funds and authorize petty cash payments in advance of audit, the reimbursement requests (claims with the supporting bills or receipts for purchases made from the petty cash fund) should be audited by the Board in the same manner as other claims.

⁴ These claims were included on 45 warrants which totaled \$2,976,641.

⁵ One of these claims, in the amount of \$296, was for utilities, which is a permissible claim to pay prior to audit. The claim was properly listed and approved on the next warrant.

What Do We Recommend?

The Board should:

1. Audit all claims, as an entire Board, or appoint a claims auditor to assume the Board's powers and duties to examine and approve or disapprove claims as authorized under Education Law.
2. Ensure that claims paid prior to audit are authorized under Education Law to be paid in advance of audit and ensure its resolution is consistent with Education Law.
3. Conduct a thorough and deliberate audit of each claim before authorizing payment to ensure it is accurate, properly supported, for valid District expenses and in compliance with required statutes and policies.

Appendix A: Response From District Officials

Brookfield Central School *Achieving Academic Excellence*

Superintendent
James Plows, Jr.

Principal
Carrie Smith

District Treasurer
Suzanne Scully



Board Members
Bernard C. Whitacre, President
Jeffrey Beehm, Vice President
Dawn Brean
Sean Karn
Valerie Nolan

District Clerk
Christa Case

P.O. Box 60, 1910 Fairground Road, Brookfield, NY 13314

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Fax: (315)-899-8902

March 7, 2018

Rebecca Wilcox, Chief Examiner
State office Building
Room 409
333 E. Washington Street
Syracuse, NY 13202-1428
Re; Brookfield Central School District – Audit Response and Corrective Action Plan

Dear Ms. Wilcox;

On behalf of the Board of Education of Brookfield Central School District I offer the following response to your finding in your Report of Examination, 2018M-006.

Although your findings stated that:

“However, we also determined that claims were generally supported by adequate invoices and documentation, included evidence that the goods and services were received, and were for legitimate District purposes and in accordance with District policies.”

We agree with your finding of non-compliance that the entire board should audit all claims prior to payment, except, for those exceptions specifically authorized by Education Law.

Accordingly, the District will take corrective action to insure future payments are in compliance with Education Law. Future claims will be audited by the entire Board prior to payment.

We would like to thank you and your staff for their professionalism during the course of the audit.

Sincerely,

James Plows, Jr.

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 reviewed Board meeting minutes from fiscal years 2016-17 and 2017-18 to determine whether the Board appointed an appropriate claims auditor.
- We interviewed the Board President and District officials to determine the procedures for the audit, approval and payment of claims.
- We selected a random test sample of 50 claims totaling \$650,989, using a computerized spreadsheet function, to determine whether the claims were for proper District purposes, mathematically accurate and sufficiently 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 \$866,363 paid during the audit period and reviewed them for the same concerns as in our other test sample. We selected these claims because they posed a higher risk for inappropriate District expenditures. These claims included payments to Board members or other District officials, large dollar purchases, unrecognized vendors, credit card payments, and purchases from vendors that appeared unrelated to District operations.

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#lgmg

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/lgli/pdf/cybersecurityguide.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.state.ny.us

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

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

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