

Poland Central School District

Claims Audit Process

JANUARY 2019



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

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Report Highlights

Poland Central School District

Audit Objective

Determine whether claims were supported by adequate documentation, for appropriate purposes and audited and approved before payment.

Key Findings

- With the exception of debit card purchases, which bypass the claims audit process, we found that District officials established effective claims processing procedures.
- We reviewed 125 claims totaling nearly \$1.1 million and found that they were adequately supported, for appropriate purposes and audited and approved before payment.
- District officials made 36 debit card purchases totaling about \$8,000 during the audit period that were not audited or approved by the claims auditor.

Key Recommendation

- Discontinue the use of the debit card.

District officials generally agreed with our recommendation and have initiated corrective action.

Background

The Poland Central School District (District) serves the Town of Morehouse in Hamilton County, the Towns of Newport, Norway, Ohio, Russia, Salisbury and Webb in Herkimer County and the Town of Deerfield in Oneida County.

The seven-member Board of Education (Board) is responsible for managing financial and educational affairs. The School Superintendent (Superintendent) is responsible, along with other administrative staff, for day-to-day management under the Board's direction.

The Board designated its claims auditing responsibility to a claims auditor.

Quick Facts

Employees	110
Enrollment	550
2017-18 Appropriations	\$14.3 million
Number of Claims Paid During the Audit Period	1,135
Amount of Claims Paid During the Audit Period	\$5.3 million

Audit Period

July 1, 2017 – June 30, 2018

Claims Audit Process

What Is an Effective Claims Audit Process?

With limited exceptions, New York State Education Law¹ requires a board 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. 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 and district policies, and that the amounts claimed represent actual and necessary expenditures before payment. 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 in each claim.

Further, unlike using a credit card, where a statement is received and the purchase can be audited and approved before payment is made, using a debit card allows a payment to be directly withdrawn from a district's bank account at the time of purchase before approval is authorized and provides no opportunity for the board or its appointed claims auditor to audit the claim for the purchase before it is paid. Therefore, a district should not use a debit card.

The District Has an Effective Claims Audit Process

District officials established procedures to ensure that most claims were adequately documented and supported and for appropriate purposes. Except for debit card purchases, which bypass the claims audit process, the claims auditor conducted a thorough examination of each claim to determine whether it was for appropriate purposes, the goods or services were received and the claim were adequately documented and supported (i.e., with an itemized invoice, purchasing requisition, purchase order and documentation showing the receipt of goods or services) before payment.

The District Treasurer (Treasurer) compiles all claims and supporting documentation along with copies of the checks and submits them to the claims auditor for review twice a month. She also creates the warrant (list of claims) and provides it to the claims auditor.

The claims auditor maintains a log, which she uses to track the check numbers for the claims paid by each fund including any voided checks. After the claims auditor has completed her review of claims, she stamps each claim to show it was audited, and signs the warrant to indicate approval. The claims auditor gives this approved warrant to the Treasurer who then mails the checks.

¹ The Board may, by adopting a resolution, authorize payment in advance of audit for public utility services (electric, gas, water, sewer and telephone), postage, and freight and express charges. However, these claims should be audited as soon as possible after payment, New York State Education Law, Section 1724.

If the claims auditor identifies any exceptions during her review (e.g., incorrect name or address, missing receiving documentation, invoice discrepancies, no purchase order or tax included), she documents this on her report to the Board. She also ensures that corrective action is taken to address these exceptions, as needed, before approving the claim for payment.

We reviewed 125 general fund claims totaling about \$1.1 million of 1,135 claims totaling \$5.3 million that were paid during our audit period.² These claims were supported by adequate documentation, required authorizations and contained evidence that the goods or services were received. We also found that these claims were for legitimate purposes and audited and approved by the claims auditor before payment.

Establishing and adhering to effective claims auditing procedures decreases the risk that errors or irregularities in processing and paying claims could occur and not be detected in a timely manner.

Debit Card Purchases Bypassed the Claims Audit Process

District officials used a debit card to make 36 purchases totaling \$8,036 during our audit period. Although District officials use a separate bank account for debit card transactions and the card is secured in the business office safe when not in use, the use of a debit card prevented the claims auditor from auditing and approving these purchases.

The Board adopted a policy that limits debit card use to a select few officials, such as the Business Manager, Treasurer and Superintendent. The Treasurer records the debit card transactions in the accounting system by journal entries and attaches the receipts to the journal entry summary sheet, which the Business Manager reviews and approves. However, this documentation was not presented to the claims auditor for review and any review performed by the claims auditor would not have occurred until after the funds were disbursed.

The Business Manager told us that the District obtained a debit card because when they applied for a credit card, several years ago, the credit card company requested various sources of additional information, which made it more complicated to obtain a credit card. As a result, the Board decided to get a debit card instead.

We reviewed all disbursement activity in the debit card bank account during our audit period. Examples of some of these purchases were refreshments for District-held conferences and staff meetings, art supplies, teaching supplies, furniture, technology items, hotel stays for officials attending conferences and students attending a sport-related event.

² See Appendix B for our sampling methodology.

All of these disbursements were properly supported, for proper purposes and adequately recorded in the accounting records by the Treasurer. However, without an independent review by the claims auditor before payment, there is an increased risk that improper payments could be made.

What Do We Recommend?

The Board and District officials should:

1. Discontinue the use of the debit card.

Appendix A: Response From District Officials



January 3, 2019

DISTRICT OFFICE

Laura Dutton
Superintendent of Schools
315-826-7900

Donna Wellington
District Clerk
Ext. 203

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

BUSINESS OFFICE

Chad Hess
Business Official
315-826-0204

Charlene Goss
District Treasurer
Ext. 205

Poland Central School District is in receipt of the Comptroller's draft audit report of the District's claims audit process for the period commencing July 1, 2017 and ending June 30, 2018 and concurs with noted findings. Accordingly, the District has ceased using a bank debit card and revised relevant procedures and board policy. At the Regular Board meeting held on October 25, 2018, the board formally reapproved Poland Central School District Policy #**4604 District Credit Cards**.

We are appreciative of the opportunity to improve financial practices and gain insights. We acknowledge the attentive work of the Field Auditor and the staff involved with examining our financial operations who were professional, courteous, and offered feedback to District employees and the Board of Education President. Throughout the examination, interruptions to daily work and routine were minimal and questions about process or clarifications met with attention and focus.

On behalf of Poland Central School District,

Laura Dutton
Superintendent

Chad S. Hess
School Business Manager

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 staff to determine the process for the audit, approval and payment of claims.
- We reviewed and evaluated the claims audit policies and procedures and debit card policies and procedures.
- From the 1,135 general fund claims paid during the audit period, we randomly selected 75 totaling \$579,300 and judgmentally selected 50 totaling \$509,575. Our judgmental sample included claims that we considered to be higher risk, such as payments to district officials, vendors that sell items that could be converted to personal use or items that may be unrelated to operations and payments to vendors with names unfamiliar to us. We reviewed each claim to determine whether the claim was properly audited and approved before payment, adequately supported and for proper purposes.
- We reviewed all 36 debit card disbursements made by officials during our audit period. We traced these disbursements to the actual receipt and other supporting documentation to determine whether the purchase was for proper purposes.

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 relevant population size 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 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#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/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

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