

Ausable Valley Central School District

Claims Auditing

JANUARY 2019



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

Contents

- Report Highlights 1**

- Claims Auditing 2**
 - What Are Effective Claims Auditing Procedures? 2
 - Claims Were Audited After Payments Were Made. 2
 - Debit Card Transactions Were Not Audited 4
 - What Do We Recommend? 4

- Appendix A – Response From District Officials 5**

- Appendix B – OSC Comment on the District’s Response. 6**

- Appendix C – Audit Methodology and Standards 7**

- Appendix D – Resources and Services. 9**

Report Highlights

Ausable Valley Central School District

Audit Objective

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

Key Findings

- Signed checks were printed before the claims auditor audited and approved the claims.
- Claims totaling \$27,888 for 15 check disbursements made during the audit period were not audited and approved before payment.
- During the audit period, 45 debit card transactions totaling \$24,405 were not audited and approved.

Key Recommendations

- Print signed checks after the claims have been audited and approved.
- Audit and approve claims before payment in accordance with New York State Education Law, Section 1724 (Education Law).

District officials generally agreed with our recommendations and have initiated, or indicated they planned to initiate corrective action. Appendix B includes our comment on an issue that was raised in the District's response letter.

Background

The Ausable Valley Central School District (District) serves residents of the Towns of Ausable, Black Brook and Peru in Clinton County, Chesterfield, Jay, Keene, Willsboro and Wilmington in Essex County and Franklin in Franklin County.

The seven-member elected Board of Education (Board) is responsible for the general management and control of financial and educational affairs. The Superintendent of Schools (Superintendent) is the chief executive officer and, along with other administrative staff, is responsible for day-to-day management under the Board's direction.

The Board delegated its claims auditing responsibility to a claims auditor and an alternate claims auditor.

Quick Facts

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| Number of Checks Disbursed During the Audit Period | 5,979 |
| Dollar Amount of Checks Disbursed During the Audit Period | \$26.2 million |
| 2017-18 Appropriations | \$32 million |

Audit Period

July 1, 2016 – June 30, 2018

Claims Auditing

What Are Effective Claims Auditing Procedures?

With limited exceptions,¹ Education Law requires the 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. Effective claims auditing procedures ensure that every claim against the district is submitted in a timely manner, subjected to an independent, thorough and deliberate review, contains adequate supporting documentation to determine whether it complies with statutory requirements and district policies, and the amounts claimed represent actual and necessary expenditures.

In addition, signed checks should be printed only after the claims are audited and approved for payment. Furthermore, unlike using a credit card, where a statement is received and the purchase can be audited and approved before payment, using a debit card allows a payment to be directly withdrawn from a district's bank account at the time of purchase and provides no opportunity for the board or its appointed claims auditor to audit the purchase before it is paid. As such, a district should not use a debit card.

Claims Were Audited After Payments Were Made

On a weekly basis, the account clerk provided the claims auditor with a warrant (i.e., list of claims) and the corresponding claims for audit and approval. Once the claims auditor completed his audit, he signed the warrant to indicate the claims approved for payment.

Although claims were supported by adequate documentation and for appropriate purposes, they were not always audited and approved before payment. Signed checks were printed before the claims auditor audited and approved the corresponding claims.

The School Business Executive, who also serves as the District's Treasurer (Treasurer), told us that they also prepared and issued checks for certain claims before the regular weekly claims audit to meet payment deadlines. Claims for these disbursements were then presented to the claims auditor with other claims during the subsequent weekly cycle.

We reviewed 50 check disbursements totaling \$108,299 for claims paid during the audit period to determine whether the corresponding claims for these disbursements were supported by adequate documentation, for appropriate

¹ The Board may, by adopting a resolution, authorize payment in advance of audit for claims for public utility services (electric, gas, water, sewer and telephone), postage, freight and express charges. However, the claims for such prepayments must be presented at the next regular Board meeting for audit (Education Law, Section 1724).

purposes and audited and approved before payment.² All these claims were supported by adequate documentation and for appropriate purposes.

However, the claims auditor did not audit and approve a claim for one disbursement totaling \$152 before payment, as required by Education Law. The disbursement was for a reimbursement to an employee who purchased printer ink and the corresponding check was dated outside the regular weekly claims audit cycle.

We reviewed the corresponding claims for an additional 25 check disbursements totaling \$46,255 with checks dated outside the regular weekly claims audit cycle. All these claims were supported by adequate documentation and for appropriate purposes.

However, the claims auditor did not audit and approve claims for 14 of these disbursements totaling \$27,736 before payment, as required. These disbursements were for various purposes, such as payments for two utility vehicles for the athletic department and maintenance supplies. This occurred because checks were prepared and issued for these claims before the weekly claims audit to meet payment deadlines.

We also reviewed the corresponding claims for an additional 25 check disbursements totaling \$9,092 for reimbursements to District officials and employees. All these claims were supported by adequate documentation and audited and approved before payment.

However, for one claim totaling \$1,749 for mileage reimbursement to an employee for personal vehicle use during 2016-17, the employee was overpaid \$808. This occurred because the employee was incorrectly reimbursed \$1 per mile, instead of the Board-approved mileage reimbursement rates for 2016-17.³ This was a clerical error made when completing the claim form that was not identified during the audit of claims. During our audit fieldwork and subsequent to discussing this issue with District officials, they recovered this overpayment by withholding this amount from the payment made to the employee for mileage reimbursement for personal vehicle use during 2017-18.

Although supported by adequate documentation, claims for five disbursements totaling \$5,168 for payments to employees for mileage reimbursements were not submitted in a timely manner.⁴ For example, in September 2016, an employee

² Because signed checks were printed before the claims auditor audited and approved the related claims, we compared the dates the checks cleared the bank with the dates the claims auditor approved the claims. If a check cleared the bank before the claim was approved, we concluded that the claim was paid before the claims auditor's approval.

³ The Board approved employees to be reimbursed at the Internal Revenue Service mileage reimbursement rates for the 2016-17 fiscal year, which were \$.54 per mile for the period July 1, 2016 through December 31, 2016 and \$.535 per mile for the period January 1, 2017 through June 30, 2017.

⁴ This amount includes the previously discussed \$1,749 disbursement for mileage reimbursement.

submitted claims and was reimbursed \$1,885 for personal vehicle use during 2013-14 through 2015-16, more than 38 months after this employee first recorded personal vehicle use on July 1, 2013. The claims for the other four disbursements totaling \$3,283 were submitted between eight and 11 months after these employees first recorded personal vehicle use.

When signed checks are printed before the claims auditor's audit and approval and claims that are ineligible to be paid in advance are paid before the claim auditor's approval, there is an increased risk that improper claims could be paid. In addition, when claims for mileage reimbursement are not submitted in a timely manner, there is an increased risk that improper mileage could be recorded and reimbursed.

Debit Card Transactions Were Not Audited

The Superintendent and Treasurer were assigned debit cards and were responsible for overseeing their use. The Treasurer reviewed the debit card transactions on the monthly bank statements and recorded them in the accounting records. However, because these transactions were direct charges to the bank account, the claims audit process was circumvented. Further, these transactions were not subsequently audited and approved by the claims auditor.

We reviewed all 45 debit card transactions totaling \$24,405 recorded on the District's bank statements⁵ during the audit period to determine whether these transactions were supported by adequate documentation and for appropriate purposes. Except for minor discrepancies which we discussed with officials, all the transactions were supported by adequate documentation and for appropriate purposes.

During our audit fieldwork and subsequent to our discussion of these issues with District officials, they canceled all debit cards and closed the corresponding bank account.

What Do We Recommend?

The Treasurer should:

1. Print signed checks only after the claims auditor has audited and approved the claims.
2. Ensure all claims, other than those allowed under Education Law, are audited and approved by the claims auditor before payment.

District officials should:

3. Ensure claims for mileage reimbursement are submitted in a timely manner.

⁵ The District had a separate bank account used solely for debit card transactions.

Appendix A: Response From District Officials

AuSable Valley Central School Response to Comptroller Audit Report Claims Auditing

The District recognizes the importance of the Claims Audit process and has procedures in place as prescribed by New York State Education Law. There were a few instances where the normal business activity was outside the Claim's Auditors schedule which resulted in claims not following the proper timing for claims as prescribed. However, as highlighted in the Comptroller's report, all disbursements examined by the Comptroller's Office were supported by adequate documentation and were for appropriate purposes. All claims were presented to the Claims Auditor with proper documentation and were approved.

Response to key findings

1. The District has always provided the claims auditor with the claims and checks at the same time, this was the case when the Comptroller's Office audited the District in 2007, 2010 and 2013 with no mention of the District's procedure being an issue. The Claims auditor reviews the claims along with the checks for verification and then mails the checks himself. Having the claims checked and then running the checks creates another step for the auditor, as the checks would have to be compared to the claims run again.
2. The District deals with Cash-on-delivery vendors and payment deadlines that are sometimes outside the Claims Auditor's schedule. As highlighted in the Comptroller's report, all claims paid before audit were properly documented and approved, and with the exception of one small discrepancy they were always provided to the Claims Auditor for review and approved.
3. The District used a direct payment card for vendors that do not accept purchase orders and require payments by credit cards only. As highlighted by the Comptroller's audit report, except for minor discrepancies all transactions were supported by adequate documentation and for appropriate use. In most cases the expenses were authorized by the Board of Education prior to the transactions. The debit card situation was created by the District's credit card being cancelled. Because the credit card was cancelled the District had no way to pay for the special credit card only costs, the bank offered the District a direct payment card to handle these types of payments. The direct payment card was cancelled before the audit concluded, but once again as highlighted in the Comptroller's report, all expenditures were supported by proper documentation and were for appropriate use.

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| See Note 1 Page 6 |
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Respectfully,

Paul D. Savage II
Superintendent 12/2/18

Appendix B: OSC Comment on the District's Response

Note 1

None of our previous audits contained an objective related to claims auditing. Our prior audit report, Ausable Valley Central School District – *Internal Controls Over Selected Financial Activities* (2013M-299) released in February 2014, focused on department cash receipts and information technology.

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 objective⁶ and obtain valid audit evidence, our audit procedures included the following:

- We interviewed District officials and reviewed the policy manual and various financial records and reports to gain an understanding of procedures related to claims auditing and documented any associated effects of deficiencies in those procedures.
- We randomly selected 50 check disbursements from the 5,979 checks disbursed for claims paid during the audit period and reviewed the corresponding claims to determine whether they were supported by adequate documentation, for appropriate purposes and audited and approved before payment.
- We reviewed claims for an additional 25 check disbursements that were dated outside the regular weekly claims audit cycle to determine whether the corresponding claims for the disbursements were supported by adequate documentation, for appropriate purposes and audited and approved before payment. We judgmentally selected our sample to include accounts payable checks issued throughout the audit period.
- We reviewed claims for an additional 25 check disbursements for reimbursements to District officials and employees to determine whether the corresponding claims for the disbursements were supported by adequate documentation, for appropriate purposes and audited and approved before payment. Our judgmental sample consisted of all 11 reimbursements to District office employees (Treasurer, account clerk, payroll clerk, Superintendent and the Superintendent's secretary) and 14 reimbursements to other administrators and department heads.
- We reviewed all debit card transactions recorded on the District's bank statements during the audit period to determine whether they were supported by adequate documentation, for appropriate purposes and audited and approved before payment.

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.

⁶ We also issued a separate audit report, *Ausable Valley Central School District – Medicaid Reimbursements (2018M-189)*.

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 D: 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

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