

Wainscott Common School District

Claims Auditing

JUNE 2019



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

Contents

- Report Highlights 1**

- Claims Auditing 2**
 - What Is Effective Claims Auditing? 2

 - Officials Did Not Adhere to the Purchasing Regulation and the
Claims Audit Policy. 2

 - What Do We Recommend? 3

- Appendix A – Response From District Officials 5**

- Appendix B – OSC Comments on the District’s Response 10**

- Appendix C – Audit Methodology and Standards 12**

- Appendix D – Resources and Services 13**

Report Highlights

Wainscott Common School District

Audit Objective

Determine whether the Board of Education (Board) adequately audited claims before payment and ensured that each was approved, for appropriate purposes and adequately supported.

Key Findings

- We found no evidence that the Board, as a whole, performed a thorough audit of claims that not only ensured that claims were adequately supported, that the correct quantities were received and prices charged and that the goods/services purchased were actual and necessary, but also ensured that the procurements and claims adhered to all District policies and procedures.

Key Recommendations

- Enforce the adopted purchasing policy, procedures and regulation.
- Require the Business Manager/Treasurer to submit claims packets to the Board, together with the warrant.
- Perform a thorough audit of each claim before approving the claims for payment.

District officials disagreed with certain aspects of our findings and recommendations, but indicated they planned to implement some of our recommendations. Appendix B includes our comments on issues raised in the District's response letter.

Background

The Wainscott Common School District (District) serves the Towns of East Hampton and Southampton in Suffolk County.

The three-member Board is responsible for managing the District's financial and educational affairs, including auditing claims. The School Superintendent (Superintendent) and part-time Business Manager/Treasurer are responsible for the District's day-to-day management under the Board's direction.

As purchasing agent, the Superintendent is responsible for approving purchases and ensuring that all goods and services are procured in the most prudent and economical way. The District Clerk serves as deputy purchasing agent.

Quick Facts

Employees	19
Enrollment	79
2017-18 Actual Expenditures	\$2,864,463

Audit Period

July 1, 2017 – June 30, 2018

Claims Auditing

What Is Effective Claims Auditing?

School district boards should audit all claims before they are paid or 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 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. It is important for the board or its appointed claims auditor to determine whether the claims are properly itemized and supported, the district actually received the goods or services described on each claim and appropriate procedures were followed for the procurement. Furthermore, 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. The District's claims audit function policy specifies that, "The Board of Trustees will perform the claims audit function for the district." The policy also outlines what the claims audit process should determine.

Officials Did Not Adhere to the Purchasing Regulation and the Claims Audit Policy

The District's purchasing procedures require that a requestor prepare a requisition and submit it to the Superintendent. Then, upon receipt of the goods/services ordered, the District Clerk verifies the quantity and price of the goods/services before signing the invoice to indicate receipt of goods and approval of payment. Finally, the District's policy requires the Superintendent to sign the claim voucher and submit it to the Business Manager/Treasurer for payment.

However, the District did not use formal requisitions during our audit period. Instead, employees submitted budget worksheets, referred to as "wish lists," after the budget was adopted. Using the lists, the District Clerk would create the purchase orders, make the purchases, receive the goods ordered and approve the invoices for payment. The Superintendent and District Clerk would sign the claims vouchers before sending them to the former Business Manager/Treasurer¹ for payment. After receiving the claim vouchers, the former Business Manager/Treasurer would print the checks and prepare a warrant (list of claims) with check numbers that he provided to the Board monthly.

We examined 36 claims totaling \$19,358 to determine whether the Board audited claims before they were paid. While all 36 claims paid appear to be for actual and necessary District expenditures, we found no evidence that the Board audited

¹ This individual served as Business Manager/Treasurer during our audit period and audit. The Board terminated his service effective October 17, 2018.

the claims before payment. The Board President stated that he received all claims weekly and that he alone reviewed each claims packet, on behalf of the Board, before signing any checks. However, after repeated requests, the former Business Manager/Treasurer informed us that he filed each claim component (i.e., purchase order, invoice, claims voucher) separately and not as a claims packet, and that he provided the Board with only the warrant and a stack of checks each month.

Furthermore, we found, and the District Clerk confirmed, that no packing slips were retained as proof that goods were received. While the District Clerk generally signs each claim voucher to indicate that she reviewed the invoices and verified the proper quantity was received, the correct price was charged and that she had approved the invoices for payment, we found that she did not sign four of the 36 claims that we reviewed. Also, the former Business Manager/Treasurer did not have any requisitions for the 36 purchases. Finally, the Superintendent did not sign the claims vouchers for four of the 36 purchases, totaling \$3,601, to authorize the payment.

The District's policy requires that the entire Board audit the claims, not just the Board President. Moreover, paying claims without a thorough audit that not only ensures that claims are adequately supported, that the correct quantities were received and prices charged and that the goods/services purchased were actual and necessary, but also ensures that the procurements and claims adhered to all District policies and procedures weakens the District's system of internal controls over the claims process. When claims are not thoroughly audited, District officials cannot detect and prevent overpayments or improper payments before they occur.

What Do We Recommend?

The Board should:

1. Enforce its adopted claims audit function and purchasing policies, procedures and regulations.
2. Require the Business Manager/Treasurer to submit all claims packets together with the warrant.
3. As a whole, perform a thorough audit of each claim before approving the claims for payment.

The Superintendent and District Clerk should:

4. Adhere to the Board's adopted claims audit function and purchasing policies, procedures and regulations.

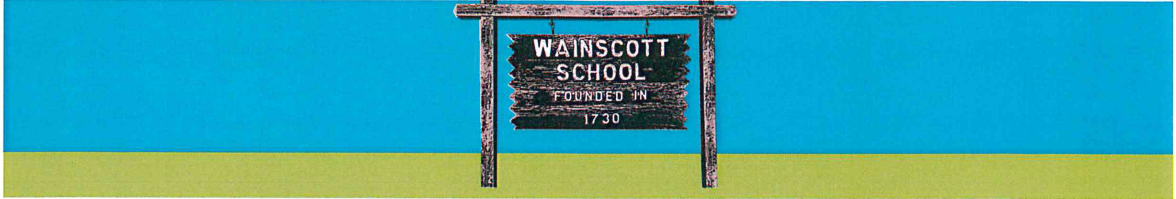
-
5. Ensure that each invoice is signed to indicate receipt of goods/services, verification of prices charged and approval of payment.

The Business Manager/Treasurer should:

6. Submit all claims packets to the Board to be audited together with the warrant.
7. Ensure no claim is paid before the Board's audit and approval.

Appendix A: Response From District Officials

The District's response letter refers to attachments that support the response letter. Because the District's response letter provides sufficient detail of its actions, we did not include the attachments in Appendix A.



March 25, 2019

Mr. Ira McCracken, Chief Examiner
Division of Local Government and School Accountability
Office of the State Comptroller
NYS Office Building-Room 3A10
250 Veterans Memorial Highway
Hauppauge, New York 11788-5533

Dear Mr. McCracken:

The Wainscott Common School District acknowledges receipt of the Draft Claims Auditing Report of Examination 2018M-240 for the period of July 1, 2017- June 30, 2018 (the "Draft Examination Report").

Reference is also made to our conference call on March 21, 2019 during which the Draft Examination Report was discussed by the following persons. On behalf of the Division of Local Government and School Accountability, Office of the State Comptroller: Ira McCracken, Chief Examiner; [REDACTED] and [REDACTED]. On behalf of the Wainscott Common School District: David E. Eagan, President of the Board of Board of Trustees; Deborah Habb, Superintendent and Christine Schnell, Treasurer/Business Manager.

We also acknowledge receipt of the following proposed edits to the Draft Examination Report that were sent to us following our telephone conference:

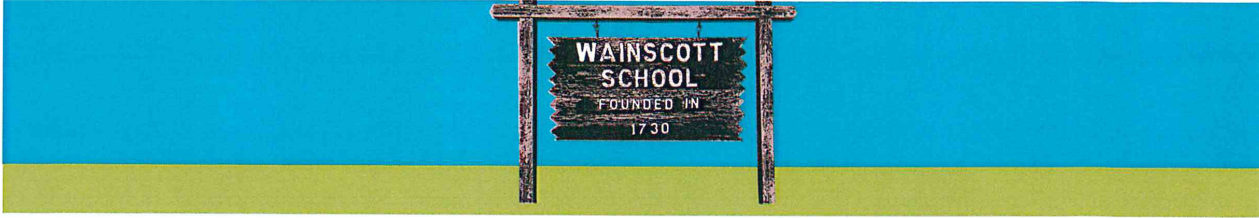
- (i) Proposed edits to page 4 and 5 attached hereto as Exhibit A ; and
- (ii) Proposed edits to the Key Finding section attached hereto as Exhibit B.

See Note 1 Page 10

The Draft Examination Report amended by your proposed edits is hereinafter referred to as the "Revised Draft Examination Report".

Initially, we note that your Draft Report of Examination states that all 36 paid claims examined by your audit "appear to be for actual and necessary District expenditures..." and that bottom line conclusion remained substantially unchanged in the Revised Draft Examination Report. We also note that this is the second Audit of our District by your Office in the last five years and neither resulted in any findings of inappropriate or unnecessary District expenditures.

WAINSCOTT COMMON SCHOOL DISTRICT
P.O. BOX 79, 47 MAIN STREET, WAINSCOTT, NY 11975
PHONE: (631) 537-1080 | FAX: (631) 537-6977
WWW.WAINSCOTTSCHOOL.ORG
SUPERINTENDENT: DEBORAH HAAB



By way of background, we are a very small Common School District who has operated a one room school house continuously since 1730. Our entire administrative personal and staff consist of six individuals performing the following functions:

1. A three-member elected Board of Trustees, including a President elected by the Board;
2. A part-time School Superintendent (who also serves as Purchasing Agent);
3. A part-time Business Manager/Treasurer; and
4. A full time District Clerk/ School Secretary (who also serves as Deputy Purchasing Agent).

By design, each of these individuals is directly involved in our District's audit of each claim paid by the District.

The Waincott District acknowledges your office's findings regarding the Board of Trustee's claims auditing process. Respectfully, however, we do not believe that the Draft Report of Examination or the Revised Draft Report of Examination accurately reflects the Board's auditing procedures.

Under Key Findings in the Draft Examination Report, it is stated that "[t]he Board does not and cannot audit claims because District officials do not assemble the claim components (i.e. purchase order, invoice, etc.) into a packet that can be easily reviewed." That finding is incorrect as District officials do in fact assemble such a packet for the Board's review prior to issuing payment.

See
Note 2
Page 10

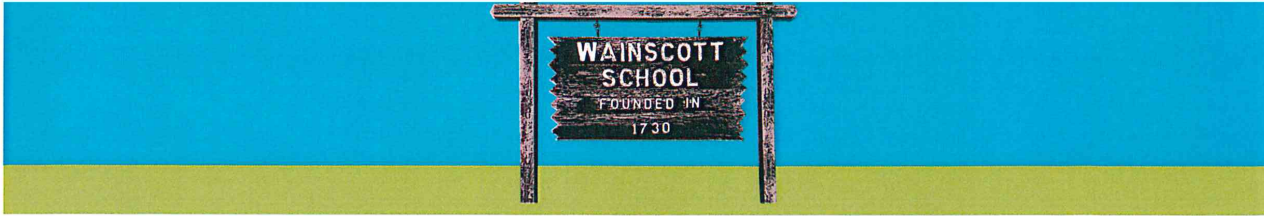
During, our March 21 conference call District officials described in detail the following audit process that is followed by the District when processing claims. This process is the same process followed by the District prior to, during and following Audit period covered by the Draft Report.

Each and every check issued by the District is required to be signed by both the Treasurer/Business Manager and a member of the Board (typically the President). The entire audit process is as follows:

- A voucher (sample attached as Exhibit C) with a vendor's invoice attached is signed, dated and certified by the District Clerk/ Deputy Purchasing Agent;
- The same voucher and attached invoice then is signed, dated and certified by the Superintendent/Purchasing Agent;
- The same signed voucher and attached invoice this then is presented to the Business Manager/ Treasurer for review and preparation of payment by check;
- The check is then prepared, signed and attached to the signed voucher and invoice by the Business Manager and presented to the Board of Trustees for their review;
- The Board President (or other Board member in his absence) reviews each check and the attached supporting signed voucher and invoice and then executes each check on behalf of the Board. As a matter of law, it is both permissible and proper for the Board to delegate part of its Audit function to one of its three members. Our District's Board has chosen to delegate

See
Note 3
Page 10

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P.O. BOX 79, 47 MAIN STREET, WAINCOTT, NY 11975
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- its review of the claims package and review and execution of each proposed check to its President and in such person's absence one of the remaining two Board Members;
- The fully executed checks and above-described supporting documentation which now includes the attached check stub is returned to the District Clerk/ Deputy Purchasing Agent and the check is then mailed to the vendors;
 - The above-described supporting documentation and attached check stub (claims package) is returned to the Treasurer/ Business manager and is filed together in the District's records.
 - A check warrant is presented to the Board for their review and approval at each of its monthly meetings. Each check warrant contains a listing of each check (including payee and amount) issued by the District during the relevant period;
 - The Board also receives a complete copy of the most recent monthly bank statement for each of the District's bank accounts at each of its monthly meetings. The bank statements contain a copy of both sides of each check presented to the District's account for payment during the statements' period; and
 - Finally a copy of the Audit Trail from the District's [REDACTED] account is presented to the Board for their approval at its monthly meetings. (This last component was added during the Audit period in response to your Auditor's recommendation).

See
Note 4
Page 10

Based upon the above, it is clear that each of the District's administrative personnel and staff is involved in the review and audit of each claim to ensure that it was adequately approved, for appropriate purposes and adequately supported. It is also clear that District officials do in fact assemble a claims packet for the Board's review prior to issuing payment and that the Draft Examination Report's Key Finding to the contrary is was incorrect in this critical respect.

See
Note 2
Page 10

During our March 21 conference call, all three District officials gave their assurances to you and your colleagues who performed the Audit that claims packages were and continue to be assembled and presented as described above.

Notwithstanding these assurances, your Auditors continued to claim that they had received requested documentation piecemeal and not in a claims packet as described by the District Officials. During the Audit, all requests for claims documentation were responded to by our former Treasurer/ Business Manager. As a result, the District is not in a position to verify what form the information was supplied by our former official in connection with the Audit. We do note, however, that we have no evidence or knowledge that our former Treasurer/ Business Manager did not fully respond to your Auditor's requests or that any particular response was made in a piecemeal fashion. We also are not in position to determine what specific document requests were made to our former Treasurer/Business Manager by your Auditors. For example, was a single request made for claim packages relating to each of the 36 examined claims or were specific and separate requests made for certain components of a claim package. Neither the Draft nor the Revised Examination Report speaks to this issue.

See
Note 5
Page 10

Notwithstanding this uncertainty, the Revised Draft Report makes the following claim: "However, we found that each claim component (i.e. purchase order, invoice, claims voucher) appeared

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to be filed separately by the former Business Manager/ Treasurer who informed us that he provided the Board with only the warrant and a stack of checks each month.” This claim is not correct in any respect.

See
Note 6
Page 10

As stated above, the claims package (consisting of attached signed and certified voucher, invoice and check stub) is returned to the Treasurer/ Business manager after the checks are mailed and is filed in the District’s records. This fact was corroborated by our current Treasurer/ Business Manager during our conference call. Our current Treasurer / Business Manager stated that since her appointment her review of District records of claims paid by the District were found to be in the form of claims packages described above (i.e., attached voucher, invoice and check stub). Since the Auditors appeared to have received specifically requested documents directly from our former Business Manager/ Treasurer and not directly from District files we do not see any legitimate basis for the Auditors’ claim regarding what form records are actually retained in the District’s files. Moreover, we question the relevance how the claims packages are filed in the District records after the Board has audited them. The main issue is what form are claims presented to the Board during its claim auditing process and as stated above claims packages are in fact presented to the Board for that purpose.

See
Note 7
Page 10

See
Note 8
Page 11

In addition, it is simply untrue that former Business Manager/Treasurer “provided the Board with only the warrant and a stack of checks each month.” The accurate description of the Board’s claim auditing process set forth above and our statements made during our conference call completely contradicts this claim.

See
Note 6
Page 10

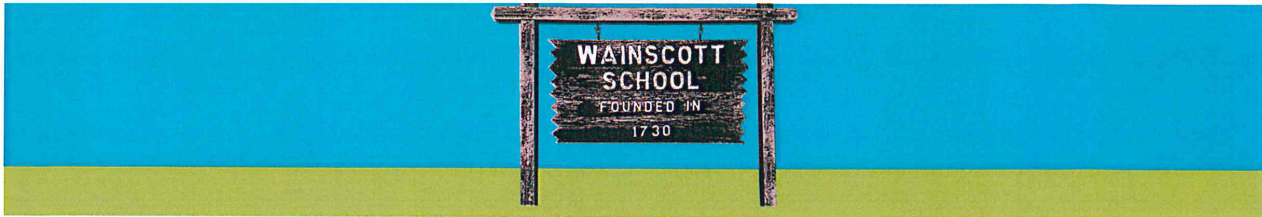
It is stated in both the Draft Report of Examination and the revised Draft Report of Examination that the District does not use formal requisitions. This is not accurate and is really a matter of semantics. The Draft Report states that “employees submit “wish lists” after the budget is adopted”. As part of the District’s budget preparation process employees are required to submit Budget Worksheets, along with a Budget Summary Sheet to the Superintendent. (See Exhibit D attached hereto). The Superintendent reviews and approves these budget requests. After the Superintendent’s review, the approved requests become part of the draft budget prepared by the Business Manager. After the budget is approved by the Board and then our voters, the requests that remain in the approved budget become the basis for future ordering. We will style these budget requests as requisitions going forward. A change in title does not mean that the documents do not exist or that they are not a part of our acquisition process.

See
Note 9
Page 11

One of the audit findings was that the District Clerk does not retain packing slips as proof that goods were received. We do note, however, that both certifications on our voucher form specifically state that the purchased items and services were in fact furnished or provided to the District. Nonetheless, going forward packing slips will be retained and included in the claims packet that is audited by a Board member as indicated above as further evidence the purchased items and services were in fact furnished or provided to the District.

Finally, the Revised Draft Examination Report also claims that “[t]he District Clerk did not sign any of the invoices to indicate that the proper quantity was received, the correct price was charged and

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that she had approved the invoices for payment”. This claim is misleading at best. Although it is literally correct that the District Clerk does not sign the vendor’s invoice she does certify to these facts when she signs and dates the District’s voucher form to which the vendor’s invoice is attached. We refer you to our form of Voucher attached here as Exhibit C. That form contains two certifications, one by the District Clerk and the other by the Superintendent. That signed and dated document becomes part of the claims package audited by the Board.

See
Note 10
Page 11

Based upon the above, the District is frankly troubled and disappointed by the Revised Draft Examination Report as it contains claims and findings that simply are not true and that do not actually reflect the Board’s claim audit process.

See
Note 11
Page 11

According to the Draft Examination Report the Superintendent did not sign four of the claims vouchers that were reviewed during this audit. Going forward, claim forms that are not signed by the Superintendent will not be processed for payment until the Superintendent’s signature has been obtained.

In conclusion, please be assured that the Waincott School District works diligently to properly audit all its expenditures to ensure that each was approved, for appropriate purposes and adequately supported. The fact that the Audit (and your prior Audit) did not reveal any expenditure that was not for actual and necessary expenditures is proof of this fact.

Finally, although we are grateful for the opportunity to provide you with a full and accurate description of our claims auditing process that yielded the Audit’s positive bottom line conclusion, we continue to be troubled and disappointed by the Revised Draft Audit Report. We continue to believe that the Revised Draft Examination Report does not actually reflect the District’s claim audit process and therefore is unfair to our District and misleading to our taxpayers. No valid or useful Audit should yield that result.

See
Note 11
Page 11

Thank you for your consideration.

Sincerely yours,

David E. Eagan, President

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P.O. BOX 79, 47 MAIN STREET, WAINSCOTT, NY 11975
PHONE: (631) 537-1080 | FAX: (631) 537-6977
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SUPERINTENDENT: DEBORAH HAAB

Appendix B: OSC Comments on the District's Response

Note 1

These attachments have not been included as they reflect non-final language that may have been changed subsequent to our exit discussion.

Note 2

As communicated to the District officials subsequent to our exit discussion, this language was edited and no longer appears in our report.

Note 3

New York State Education Law section 1604 authorizes the board of a common school district to establish the office of claims auditor. However, this section also states that no one may hold the office of claims auditor if they also hold the office of school district trustee, superintendent, other officials responsible for business management, purchasing agent or any clerical or professional personnel directly involved in accounting or purchasing functions for the district.

Note 4

This procedure was added as a result of our auditor's recommendation while conducting our audit, not during the audit period.

Note 5

As noted in our report, this individual was the Treasurer/Business Manager during our audit period and audit; the Board terminated his service effective October 17, 2018.

Note 6

As the Board President noted in the previous paragraph, "...the District is not in a position to verify what form the information was supplied by our former official in connection with the Audit."

Note 7

At the time of our audit, the District files requested were maintained at the former Business Manager/Treasurer's home. As such, the former Business Manager/Treasurer was the only District official able to provide the requested documents. The Superintendent stated during our March 21 exit conference that she personally retrieved these files from the former Business Manager/Treasurer upon his separation from District service and that she is now making room at the District to maintain these files on site, going forward.

Note 8

While we acknowledge the Board President's description of his audit process, as stated in our report, we found no evidence that the claims had been audited.

Note 9

The District Clerk informed us that these budget worksheets are referred to as "wish lists." However, budget worksheets are a tool to be used in developing the budget and are not, generally, a formal requisition of goods or services, as required by the District's purchasing policy and procedures.

Note 10

We have clarified this statement in our report.

Note 11

Our audit findings are supported by auditor observation of District documents and procedures, as well as statements made by District officials, including the Board President.

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 District officials and reviewed Education Law and the District's policies and purchasing procedures and regulations to gain an understanding of the purchasing and claims auditing process.
- The District paid 513 non-payroll general fund claims totaling \$2,241,213 during our audit period. We excluded from this population all payments for utilities, health insurance, mileage reimbursements, retirement, tuition, bus transportation, Board of Cooperative Education Services, insurance, garbage pick-up, school cleaning and debt service payments, leaving an adjusted population of 358 claims totaling \$257,529 from which to select our sample. We randomly selected 36 of these claims, or 10 percent of the adjusted population, totaling \$19,358 that we reviewed to determine whether the Board was auditing claims and whether the claims were properly approved, adequately supported and represented actual and necessary District expenditures and whether the procurements had adhered to District policies, procedures and regulations.

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 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/pubs/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/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.ny.gov

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

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

HAUPPAUGE REGIONAL OFFICE – Ira McCracken, Chief Examiner

NYS Office Building, Room 3A10 • 250 Veterans Memorial Highway • Hauppauge, New York
11788-5533

Tel (631) 952-6534 • Fax (631) 952-6091 • Email: Muni-Hauppauge@osc.ny.gov

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