



Sag Harbor Union Free School District

Claims Auditing

2022M-174 | February 2023

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Report Highlights

Sag Harbor Union Free School District

Audit Objective

Determine whether the Sag Harbor Union Free School District's (District) claims auditor ensured claims were appropriate, supported, audited and approved before payment.

Key Findings

Although all claims were appropriate, audited and approved before payment, the claims auditor did not ensure claims were supported. We reviewed 208 invoices totaling \$1.3 million to determine whether an adequate claims audit was performed. The claims auditor approved:

- 122 invoices (59 percent) totaling \$359,131 which lacked adequate supporting documentation.
- Eight invoices totaling \$4,582 which included confirming POs, sales tax charges and lacked receipt acknowledgments but never reported these to the Board.

Key Recommendations

- Perform a thorough, deliberate and independent audit in accordance with the Board policies.
- Ensure purchases are made in compliance with District policies and applicable contracts and/or bids.
- Report all claims audit findings to the Board.

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

Background

The District is located in the Towns of Southampton and East Hampton in Suffolk County.

The seven-member Board of Education (Board) is responsible for the general management and control of the District's financial and educational affairs. The Superintendent of Schools is the District's chief executive officer and is responsible, along with other administrative staff, for the District's day-to-day management under the Board's direction. The School Business Administrator oversees the District's business and accounting operations. The District Treasurer prints and signs checks.

The Board-appointed claims auditor is responsible for ensuring funds are available and claims are properly supported prior to payment.

Quick Facts

2021-22 General Fund Appropriations	\$44.9 million
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Non-Payroll Claims Processed During Audit Period:

Total Claims	3,015
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Total Amount	\$30.8 million
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Claims Reviewed	100
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Amount Reviewed	\$1.3 million
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Audit Period

July 1, 2020 – March 31, 2022

Claims Auditing

How Should School District Officials Ensure an Adequate Audit of Claims Is Performed?

A claim is a demand presented for the payment of money due for goods that have been delivered or services that have been provided. To ensure that tax dollars are spent efficiently, it is essential that school district officials ensure a thorough, deliberate and independent audit of claims be conducted before payments are authorized. An effective audit of claims is often the last line of defense for preventing unauthorized, improper or fraudulent claims from being paid. In short, the audit of claims is a highly important internal control system, but only if properly and effectively exercised.

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.

To ensure claims represent valid school district expenditures, claims must be properly approved and audited. Officials should ensure each claim has sufficient supporting documentation, including agreed-upon prices, itemized receipts or invoices and an acknowledgment of the receipt of goods or services. In addition, officials should ensure sales tax is not charged and discounts are claimed.

A claims auditor should ensure claims packets contain sufficient support. A claim packet normally includes a requisition, purchase order (PO), vendor payment history report, invoice, receiving documentation and other appropriate documentation for each claim generated. The claims auditor must review the invoices to be sure they are legal obligations of the school district, mathematically correct, sufficiently itemized, acknowledged as received, not charged sales tax, and applicable discounts are taken along with timely PO approval and department signoffs.

Officials and the claims auditor should also ensure that the school district's procurement policy is followed. The procurement policy requires alternative proposals or quotations be obtained through a request for proposals (RFP) process, written or verbal quotations or any other appropriate method of procurement.

After a claims auditor approves the claims, they should prepare a warrant (list of claims) indicating that the claims are approved for payment. The claims auditor should also report findings and deficiencies found during the claims audit process to the board to assist the board in monitoring compliance with the school district's purchasing procedures.

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.

The Board Did Not Ensure the Claims Auditor Performed an Adequate Claims Audit

The Board delegated its claims auditing responsibilities to the District's claims auditor. The Board adopted the Appointment and Duties of the Internal Claims Auditor policy (policy) which states that the Board may appoint an internal claims auditor who shall hold the position subject to the pleasure of the Board and report directly to the Board, and that the internal claims auditor shall examine all claim forms with respect to availability of funds within the appropriate codes and adequacy of evidence to support the expenditure, substantiate expenditures and meet such other requirements established by Regulations of the Commissioner of Education and the Comptroller of the State of New York.

The District uses a purchase requisition and PO process for all purchases, with limited exceptions. After POs are approved, purchases are made, and items are sent to the ordering department. Department signoffs are added to supporting documentation as indicators that an invoice is correct, and it can be paid. However, department sign offs are not consistent. Signoffs accepted by the claims auditor included:

- A handwritten note with "ok" and an initial from the Transportation Department,
- A stamp "Approved for Payment" with a date, and an initial from the Technology Department, and
- A simple initial on the invoice from the Facilities Department.

The departments send the documentation to the accounts payable clerk, and as documents are received (i.e., invoices and receiving records), the accounts payable clerk prepares the claims packets and gives them to the claims auditor for approval.

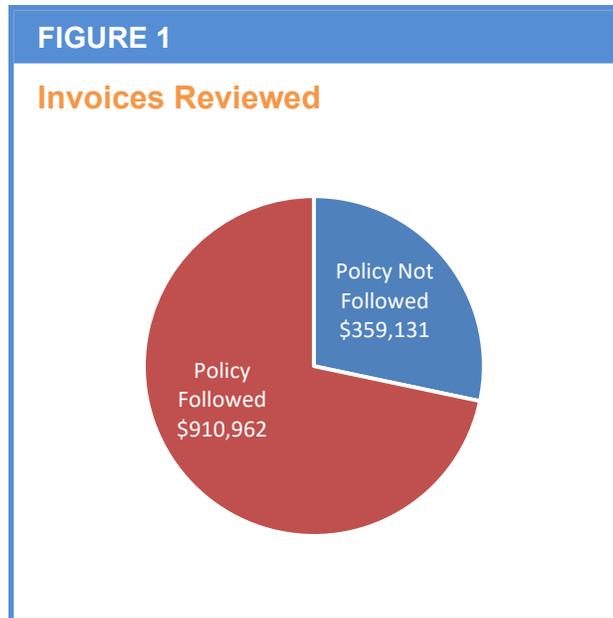
The claims auditor policy includes duties to examine all claim forms with respect to availability of funds within the appropriate codes. This duty can be done through the PO process or through a review of budget accounts in the financial software. Determining that POs have been issued in accordance with the policy is part of the claims auditor's duties.

Once audited, the claims auditor stamps each invoice and signs each warrant giving the Treasurer the authorization to pay each claim. The claims auditor then returns the claim packets to the accounts payable clerk who mails the vendor checks. Each month the claims auditor also verifies the check number sequences.

The claims auditor then prepares a monthly report to the Board, which is sent to the members via email. The monthly report includes a claims service statement indicating that a claims audit was performed and consisted of verification and accuracy of claim forms, proper approvals, POs issued in accordance with Board

policy and laws, claim comparison with approved contracts, review of price extensions and discounts, and charges with approval of charges in accordance with laws, policies and regulations. The report also includes all signed warrants and two exhibits. One exhibit lists the check number sequences and the other exhibit details any claims which required additional inquiry and the resolution.

We reviewed 100 claims, which included 208 invoices totaling \$1.3 million. In the sample selected we found all disbursements were valid, mathematically correct and paid after the claims audit. However, we identified 122 invoices (59%), totaling \$359,131, where the claims auditor policy was not followed for various reasons (Figure 1). In addition, the claims auditor also does not confirm prices charged on invoices she audited and approved because she erroneously thought the department's signoff meant that the prices are charged correctly. However, she is responsible for ensuring the invoices are accurate. As a result, the claims auditor is not thoroughly auditing the District's claims and she misleads the Board by indicating in her monthly report that she performed a comparison of invoices with previously approved contracts.



We requested the contracts or other documentation for 208 invoices totaling about \$1.3 million and found the following discrepancies that includes claims with multiple issues:

- 89 invoices totaling \$323,411 lacked documentation to determine if the price charged to the District was accurate. In addition:
 - Fifty-nine of the 89 invoices mentioned above had contracts that matched the amount invoiced.
 - Three invoices totaling \$10,182 included prices that did not match the corresponding contract and/or other documentation. The District paid more than necessary on all three invoices.
 - Twenty-three invoices totaling \$21,681 had no prices included on the contract and/or other documentation.
 - For four of the 89 invoices mentioned above totaling \$3,945, the District could not provide contract and/or other documentation.

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- 119 invoices totaling \$951,139 included a contract or other documentation in the claim package. However, these invoices also had discrepancies:
 - Four invoices totaling \$2,220 were billed as a total amount without an hourly rate or total labor hours when the bid documentation provided at an hourly rate.
 - One invoice for \$103 included prices that did not match the corresponding contract.
 - Fifteen invoices totaling \$3,117 had no pricing information on the contract and/or bid documentation.
 - Eight invoices totaling \$45,322 did not have POs. There was no indication in the claim packets that the claims auditor verified the budget codes had available funds to pay the invoice and would not be overspent. For example, a \$17,000 payment to a bond credit rating company had no PO. The claims auditor said she was told by the School Business Administrator to pay the claim without a PO so she approved it without checking whether the budget code had sufficient funds. The claims auditor serves at the pleasure of, and reports directly to, the Board. The School Business Administrator has no authority to direct the claims auditor to pay a claim.
 - Two invoices totaling \$2,248 included \$50 of sales tax. For example, a \$1,162 cell phone bill included \$40 in New York State sales tax. However, a school district is exempt from paying taxes. The claims auditor stated she missed these charges.
 - One invoice totaling \$145,892 was approved for payment despite the lack of adherence to the Board procurement policy. District officials had no support that the insurance services had been competitively sought using an RFP process. As a result, officials may be paying more than necessary for these services. The claims auditor was not aware the services should be solicited using an RFP process due to her lack of understanding of the policy requirements.

The claims auditor's procedures are lacking. As a result, 122 invoices totaling \$359,131 did not have adequate supporting documentation. When claims are paid without adequate supporting documentation, there is an increased risk that claims may not be for legitimate District purposes, that goods and services may not have been received, that the District will pay more than the authorized or expected purchase amount, or inappropriate claims could be paid.

In addition, eight invoices totaling \$4,582 should have been reported to the Board because sufficient information was not provided such as confirming POs, sales tax charges and lack of receipt acknowledgments. Because the Board has not received accurate accounts of the claims audit, there is an increased risk that improper or unsupported payments could be made and not detected and corrected.

What Do We Recommend?

The claims auditor should:

1. Perform a thorough, deliberate and independent audit in accordance with Board policies, including verifying contractual prices to invoices and confirming sales tax is not included and staff acknowledged the receipt of goods/services.
2. Verify that all purchases have a supporting approved PO.
3. Confirm the budget code has available funds and has not been overspent if a PO was not created.

Appendix A: Response From District Officials

Sag Harbor Union Free School District

200 Jermain Avenue, Sag Harbor, New York 11963-3549

Jeff Nichols, Superintendent of Schools

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January 25, 2023

Mr. Ira McCracken, Chief Examiner
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 Sag Harbor Union Free School District's official response to the draft audit report (2022M-174), entitled Claims Auditing. On behalf of the Board of Education and Administration, I would like to commend the audit team for their professionalism, thoroughness, communication and in-depth review of our claims auditing policies and procedures.

District officials have carefully reviewed the draft report and met with the auditors assigned to the audit to discuss all the findings and recommendations. We generally agree with the audit findings and support all of the audit recommendations. We have already begun to implement corrective action and we will continue to ensure that all claims are appropriate, audited and approved before payment. We recognize how important the claims auditing process is and we will work with our Claims Auditor to improve and strengthen the internal controls over the process.

We appreciate this opportunity to respond to the findings and recommendations of this report. A comprehensive corrective action plan will be submitted to your office and the New York State Education Department no later than 90 days after the final report is released.

Very truly yours,

 Jeff Nichols
Superintendent of Schools

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 District policies and procedures related to the claims audit process and Board minutes and interviewed officials and staff to gain an understanding of the claims audit process.
- From a population of 3,015 claims totaling \$30.8 million, we selected a sample of 100 claims totaling \$1,270,093 paid during our audit period. We selected these claims by sorting the claims by dollar amount, excluding checks under \$100, then selecting the five highest payments and the five lowest payments and then every 25th payment in between. We also selected, based on vendor name, an additional eight claims that posed a higher risk for the claims audit process lack of supporting documentation. We reviewed these 100 claims to determine whether they were supported by adequate documentation, for appropriate District purposes, contained evidence that the goods or services were received, in compliance with Board policies, and audited and approved before payment.
- We reviewed the check sequence of all 3,015 non-payroll general fund disbursement checks paid during the audit period, and then inquired on missing and/or out-of-sequence check numbers.

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 C: Resources and Services

Regional Office Directory

www.osc.state.ny.us/files/local-government/pdf/regional-directory.pdf

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

www.osc.state.ny.us/local-government/publications

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

www.osc.state.ny.us/local-government/fiscal-monitoring

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

www.osc.state.ny.us/local-government/publications

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

www.osc.state.ny.us/local-government/resources/planning-resources

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

www.osc.state.ny.us/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.state.ny.us/local-government/required-reporting

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

www.osc.state.ny.us/local-government/publications

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

www.osc.state.ny.us/local-government/academy

Contact

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