



Morristown Central School District Claims Audit Process

Report of Examination

Period Covered:

July 1, 2014 – March 31, 2016

2016M-257



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State of New York Office of the State Comptroller

Division of Local Government and School Accountability

September 2016

Dear School District Officials:

A top priority of the Office of the State Comptroller is to help school district officials manage their districts efficiently and effectively and, by so doing, provide accountability for tax dollars spent to support district operations. The Comptroller oversees the fiscal affairs of districts statewide, as well as district's compliance with relevant statutes and observance of good business practices. This fiscal oversight is accomplished, in part, through our audits, which identify opportunities for improving district operations and Board of Education governance. Audits also can identify strategies to reduce district costs and to strengthen controls intended to safeguard district assets.

Following is a report of our audit of the Morristown Central School District, entitled Claims Audit Process. This audit was conducted pursuant to Article V, Section 1 of the State Constitution and the State Comptroller's authority as set forth in Article 3 of the General Municipal Law.

This audit's results are resources for district officials to use in effectively managing operations and in meeting the expectations of their constituents. If you have questions about this report, please feel free to contact the local regional office for your county, as listed at the end of this report.

Respectfully submitted,

*Office of the State Comptroller
Division of Local Government
and School Accountability*

Introduction

Background

The Morristown Central School District (District) is located in the Towns of Morristown, Hammond, Oswegatchie, Macomb and DePeyster in St. Lawrence County. The District is governed by the Board of Education (Board), which is composed of seven elected members. The 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 day-to-day District management under the Board's direction. The Assistant Business Manager oversees the District's business operations.

The District operates one school with approximately 320 students and 80 employees. The District's budgeted appropriations for the 2015-16 fiscal year were \$10.3 million, which were funded primarily with State aid and real property taxes.

The Board has delegated its claims auditing responsibility to a claims auditor. The claims auditor reports directly to the Board and is responsible for examining and allowing or rejecting all accounts, charges, claims or demands against the District.

Objective

The objective of our audit was to examine the claims audit process. Our audit addressed the following related question:

- Were claims adequately documented, for appropriate District purposes and properly audited and approved prior to payment?

Scope and Methodology

We examined the District's claims audit process for the period July 1, 2014 through March 31, 2016.

We conducted our audit in accordance with generally accepted government auditing standards (GAGAS). More information on such standards and the methodology used in performing this audit are included in Appendix A of this report. 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.

Comments of District Officials

The results of our audit have been discussed with District officials. District officials agreed with our report and indicated they would not respond in writing to our audit findings.

Claims Audit Process

New York State Education Law requires the Board to audit all claims before they are paid¹ or to appoint a claims auditor to assume the Board's powers and duties to examine and approve or disapprove claims. It is important for the Board or its appointed claims auditor to ensure there is an independent, thorough and deliberate review of each claim to determine whether it contains enough supporting documentation and is properly itemized, and whether the District has actually received the goods or services described in each claim. It is also important to determine whether the proposed payments are for proper and valid District charges, represent actual and necessary District expenditures and are in accordance with District policies.

District officials have established adequate procedures over the claims processing function to ensure that claims are adequately documented and supported, are for appropriate purposes and are audited and approved prior to payment.

The Assistant Business Manager compiles all claims and supporting documentation and submits them to the claims auditor for review on a biweekly basis. The accounts payable clerk creates a warrant (list of claims) that the Assistant Business Manager prints from the accounting system and gives to the claims auditor. The claims auditor conducts a thorough examination of each claim to determine whether it is adequately documented and supported (i.e., with an itemized invoice, purchasing requisition, purchase order and documentation of receipt of goods or services), whether the goods or services being billed for were actually received, and whether the claim is mathematically accurate and for appropriate District purposes. If the claims auditor identifies an exception during her claims review (i.e., incorrect name or address, missing receiving documentation, invoice discrepancies, no purchase order or tax included), she ensures that corrective action is taken before approving the claim for payment.

The claims auditor compares the consistency of payment information from the claims to the warrant and then signs the warrant and each claim to indicate approval. The claims auditor gives the signed (approved) warrant to the Assistant Business Manager indicating that the claims listed on the warrant were reviewed and approved for payment. The Assistant Business Manager, who also serves as

¹ The Board may, by 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 audited by the claims auditor after the payments are made.

the Deputy Treasurer, generates checks for payment and the accounts payable clerk generates a post-warrant, which is similar to the approved warrant but also indicates the check numbers assigned to each claim. The claims auditor compares the dollar total from the approved warrant to the post-warrant and monitors the continuity of check numbers on a log. These procedures help ensure that all District claims are audited by the claims auditor prior to payment. Lastly, the claims auditor periodically submits reports to the Board indicating the exceptions identified as a result of her claims review.

We reviewed 77 claims paid totaling \$799,931² to determine whether these claims were supported by adequate documentation, such as itemized invoices or accompanying receipts showing the amount and quantity of the goods or services purchased, and included evidence showing that the goods or services were received. We also determined whether the claims were mathematically accurate, for legitimate District purposes, in accordance with District policies, audited and approved by the claims auditor prior to payment or paid prior to audit, as authorized by Board resolution.³ Our testing disclosed only minor deficiencies that we discussed with District officials.

We commend District officials for establishing effective procedures for processing claims against the District. 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.

² The District paid 1,619 claims totaling \$9,147,794 during our audit period from the general, school lunch, special aid and capital funds. See Appendix A for our sampling methodology.

³ We identified three claims in our sample that were paid prior to audit, totaling approximately \$3,600: two for the power company and one for postage.

APPENDIX A

AUDIT METHODOLOGY AND STANDARDS

To achieve our audit objective and obtain valid evidence, we performed the following procedures:

- We reviewed Board meeting minutes from the 2014-15 and 2015-16 fiscal years to verify that the Board appointed an appropriate claims auditor.
- We interviewed District officials and the claims auditor to determine the procedures for the audit, approval and payment of claims.
- We used a computerized spreadsheet function to randomly select a sample of 50 claims totaling \$508,424. We reviewed the claims to determine if they were sufficiently supported and contained evidence that the goods or services were actually received, were mathematically accurate and for proper purposes, were in compliance with Board-adopted policies and were audited and approved prior to payment or within the categories of claims that may be paid prior to audit (public utility, postage, freight or express charges).
- We judgmentally selected an additional sample of 27 claims totaling \$291,507 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 or had abbreviated names.

We conducted this performance audit in accordance with 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.

APPENDIX B

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