

SAYVILLE PUBLIC SCHOOLS

CLAIMS AUDIT FUNCTION



NOVEMBER 9, 2022

SAM GERGIS, Ed.D.

ASSISTANT SUPERINTENDENT FOR BUSINESS

4 Pillars...



Safeguarding the Financial Health of Sayville School District

Board of Education

Audit Committee

Claims Audit

External Audit

Internal Audit

NYSOSC Audit

Controls and Reporting

Business Office

Governance & community representation

Independent review & support

Policy & segregation of duties



Claims Audit

- Weekly audits on all expenditures “claims” against the district and BOCES;
- Ensuring claims are in compliance, authorized, properly documented, and “true and correct;”
- Provides monthly Claims Report to the BOE for review.

External Audit

- Annual Audit of Financial Statements to render an opinion on whether they are adhering to Generally Accepted Accounting Principles (GAAP);
- Formal School District response to the management letter and Corrective Action Plan (CAP);

Internal Audit

- Annually performs risk assessment of financial policies, procedures & practices;
- Annual Testing and evaluation of one or internal controls to identify risk;
- Recommends changes to improve controls and reduce financial risk;

NYSOSC

NYS Office of Comptroller

- “Five Point Plan;”
- State Audit every five years with a Focus: Internal controls, policies, practices & operations to ensure adequate protection against fraud, waste, & abuse;
- Ad-hoc reporting and audits based on a risk-assessment and previous audits.

SCHOOL DISTRICT AUDITS



- ~~External Audit(or)~~

- ~~On an *annual* basis, audits financial statements to render an opinion on whether they are adhering to Generally Accepted Accounting Principles (GAAP);~~

- ~~Internal Audit(or)~~

- ~~On an *annual* basis, performs risk assessments and helps the Board in developing internal controls to reduce financial risk;~~

- ~~Claims Audit(or)~~

- ~~On a *weekly* basis ensures that all expenditure vouchers are properly itemized and documented before payments are made by the treasurer;~~

- ~~New York State Office of the State Comptroller (NYSOSC) Audit~~

- ~~An additional audit requirement enacted by the NYS Comptroller's "Five Point Plan."~~
- ~~Audits performed at each NYS school district *every five years* to ensure that programs achieve their established goals, funds are used efficiently, and assets are adequately protected against fraud, waste, and abuse.~~

CLAIMS AUDIT & AUDITOR - OBJECTIVES



PRIMARY OBJECTIVES

- The Claims Auditor is responsible for:
 - Ensuring only legitimate claims against the District and BOCES are paid;
 - Ensuring proper documentation and itemization are provided, payment is for a legal purpose, and the transaction was properly authorized prior to approving the voucher or invoice for payment.
- The Board has the authority **to audit all claims or to delegate the full responsibility to the Claims Auditor**. There is no provision in law to permit the board to only audit a certain type of claim.
- The Claims Auditor must have knowledge in educational financial operations, pertinent legal requirements, purchasing policies, accounting systems and procedures, and other areas deemed necessary.

The Board needs to **ensure that the Claims Auditor receives training in these areas**, as appropriate.

- State law does not require the Claims Auditor to be a CPA or an Internal Public Accountant.

CLAIMS AUDIT FUNCTION

Established per New York State Education Law §1709-20 (a) and §2526, and section 170.12(c) of the Regulations of the Commissioner of Education



- Auditing claims demands more than a “rubber stamp” of the claim packages;
- Necessary for a thorough and deliberate examination to determine that the claim is a legal obligation and a proper charge against District;
- As a general rule, a claim package should contain enough detail and documentation so that the auditing body or official is supplied with sufficient information to make that determination.

CLAIMS AUDIT FUNCTION

Established per New York State Education Law §1709-20 (a) and §2526, and section 170.12(c) of the Regulations of the Commissioner of Education



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, but only if properly and effectively exercised.

Some examples of audit findings in this area include:

- Claims were paid prior to being audited and approved;
- Signed checks were printed before claims were audited and approved;
- Warrants were not signed indicating audit and approval of claims;
- Claims were approved for payment despite not being sufficiently supported;
- Not all individual claims were being reviewed deliberately and thoroughly during audit;
- Inappropriate payments were made because claims were not reviewed or audited.

CLAIMS AUDIT QUESTIONS

KEY CLAIMS AUDIT QUESTIONS



CLAIMS AUDIT PACKAGE REVIEW

- Is the claim for a valid and legal purpose?
- Was the purchase authorized and approved?
- Are there sufficient appropriations to pay the claim?
- Is the claim mathematically correct?
- Is the claim sufficiently itemized?
- Does the claim meet the legal and policy requirements in relation to competitive bidding or, when permitted, competitive offering, and the requirements of the locality's procurement policy?
- Have other adopted policies been followed?

CLAIMS AUDIT FUNCTION

KEY CLAIMS AUDIT QUESTIONS (CONT'D.)



CLAIMS AUDIT PACKAGE REVIEW (CONT'D).

- Was the purchase made by using a State, county or other permissible government contract (as an exception to soliciting competition), and is this information included on the claim form?
- Are there any sales tax charges for exempt expenses?
- Does the claim include all discounts to which your local government or school district is entitled?
- Has this claim been paid before, in whole or in part?
- Does the attached documentation support the claim being audited?
- Were the goods or services actually received?

CLAIMS AUDIT FUNCTION

PAYMENT PROTOCOLS



Payments Not Requiring Pre-Audit (not subject to routine claims auditing process)

- Fixed salaries of officers or employees regularly engaged at agreed-upon wages by the hour, day, week, month, year, or other authorized period, including any payroll withholdings.
- Principal or interest payments on debt;
- Payments made pursuant to a court order;
- Amounts due upon lawful contracts for periods exceeding one year;
- Retirement contributions by a participating employer in the New York State and Local Retirement System.

Payments Not Requiring Pre-Audit (not subject to routine claims auditing process)

- The BoE may authorize payment in advance for:
 - Public utility services, postage, freight and express charges (e.g. electric, gas, water, sewer and telephone services);
- In addition, BoE may generally establish petty cash funds and authorize petty cash payments in advance of audit;
- Most petty cash payments will involve small amounts required for infrequent purchases, such as office supplies;
- The custodian of the petty cash fund should periodically request reimbursement by purchase receipts from the fund;
- The person or body auditing claims should audit the reimbursement request in the same manner as other claims.

CLAIMS AUDIT FUNCTION

POTENTIAL ISSUES & PROBLEMS ARISING WITH AUDITING CLAIMS



EXAMPLES OF ISSUES

- If original documentation (e.g. invoices, purchase orders or receiving slips) is missing - claim should be held until supporting documentation is submitted;
 - *If/when original documentation is not provided, there may be an increased risk that the claim is not legitimate.*
- If the claim is mathematically incorrect, confirm the proper amount, correct any mistakes and only approve the claim for the corrected amount;
- If the original invoice does not sufficiently itemize the goods purchased or services rendered, contact the official who approved the claim;
 - *The official should contact the vendor to request a more detailed claim and to educate the vendor on itemization requirements.*

CLAIMS AUDIT FUNCTION

POTENTIAL ISSUES & PROBLEMS ARISING WITH AUDITING CLAIMS



EXAMPLES OF ISSUES (CONT'D).

- If the claim is for travel or conference expenses and the traveler cannot substantiate that charges are for actual and necessary expenses, or if charges are not properly authorized or are not in compliance with local policies, reduce the claim by the amount of ineligible expenses;
- If the claim is a duplicate or has been partially paid before, reject the entire claim or reduce it to the unpaid amount;
 - *Be aware that the submission of photocopies of original invoices may indicate the possibility of a duplicate claim.*

CLAIMS AUDIT FUNCTION

CLAIMS AUDIT ANALYSIS



SYSTEMATIC REVIEWS

The claims audit function serves to operate as more than just a cursory review - consider the function in a broader scope of operations. The Claims Auditor should be aware of trends in expenditures that may provide opportunities for improvement in procuring goods and services, while realizing that certain expenditures may have been inappropriately incurred. Periodic reviews of vendor payment summary records or reports can alert to changes in expense trends & areas for improvement & investigation.

Examples to consider:

- Increases in utility usage (consumption) and telephone / cell phone expenditures;
- Increases in expenditures for consumable inventory items (e.g., office and cafeteria supplies);
- Increases in expenditures for moveable items such as technology (e.g., computers and printers) and maintenance equipment (e.g., chainsaws and lawn mowers).
- Large equipment repair costs - is more cost-effective to purchase new equipment instead of repairing old equipment?
- Items that, in the aggregate, exceed competitive bidding or competitive offering monetary thresholds and should be acquired through competitive bidding or competitive offering procedures.

CLAIMS AUDIT FUNCTION

AREAS OF CONCERN (RED FLAGS)



"RED FLAGS"

- Missing documents;
- Unavailability of original documents;
- Recurring identical amounts from the same vendor;
- Multiple remittance addresses for the same vendor;
- Inconsistent, vague or implausible responses arising from inquiries or analytical procedures;
- Excessive voids or credits;
- New vendors, especially if payment goes to a post office (PO) box;
- Items purchased that are not clearly identified;

CLAIMS AUDIT FUNCTION

AREAS OF CONCERN (RED FLAGS)



"RED FLAGS" (CONT'D).

- Goods delivered outside of a central location or to an unusual delivery point;
- Credit card charges with no original receipts attached;
- All travel and conference claims, as they are inherently risky;
- Alterations or questionable handwriting on documents Duplications;
- Payments to a vendor that have increased dramatically for no apparent reason;
- Payments to vendors for construction work not certified as completed by your architect or engineer;
- Unusual delays in providing requested information;
- Tips or complaints about possible fraud.

SAYVILLE PUBLIC SCHOOLS CLAIMS

NOW & THEN



BEFORE

- Claims Audit function proposed approximately 17 years ago;
- Claims reports generated several exceptions and areas in need of improvement within purchasing, bidding & Accounts Payable;
- *For example:*
 - *December 2012 claims report - 55 exceptions;*
 - *January 2013 claims report - 53 exceptions.*
- Exceptions on the Claims Audit report included:
 - Incorrect check amounts;
 - Incorrect vendor name(s);
 - Need to itemize invoices to avoid duplicate payments;
 - Payment includes balance already paid;
 - Items purchased not on a Co-Op Bid per Director;
 - Items on PO do not agree with items on invoice;
 - District personnel voided because entered an invoice from another vendor in claim.

SAYVILLE PUBLIC SCHOOLS CLAIMS

NOW & THEN



CURRENTLY

- Emkay Consulting contracted since 2019 (Michael Kearns);
 - Previously part-time District Treasurer from 2004 - 2010.
- *Significant progress regarding Claims Audit function, Purchasing, bidding, follow-up, packages, & the Accounts Payable processes;*
- *For example:*
 - *August 2022 claims - 6 exceptions;*
 - *September 2022 claims - 2 exceptions;*
 - *October 2022 claims report - 3 exceptions.*
- Exceptions on the *current* Claims Audit report included:
 - Additional backup requested;
 - Attachment of fee schedule;
 - Inclusion of sales tax;
 - Clarification of exact vendor name;
 - Contract rate differences from year-to-year.

CLAIMS AUDIT FUNCTION

SUMMARY



CONCLUSION

- The Claims Auditing process is known as a "*super control*" because - can identify claims that violated or bypassed purchasing and other important internal controls;
- Conducting a thorough claims audit sends a message to all officers and employees that this oversight function is being exercised in a diligent and thorough manner;
- A district's strong claims auditing process, enhances the control consciousness of its staff, because officers and employees will be cognizant that a careful review of claims will occur before any disbursement of public funds;
- Reinforces BoE oversight and understanding of the fiscal responsibility required;
- A thorough & deliberate auditing process also builds taxpayer confidence in the operations of the District;
- Allocating resources to improve the effectiveness of your claims auditing process also enhances the control environment of the District.

4 Pillars...



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ACKNOWLEDGEMENTS/QUESTIONS



- Information, law(s) and relevant data pulled from the New York State Office of the State Comptroller, Sayville Public Schools Board Meetings, The New York Commissioners Rules and Regulations (NYCRR), and New York State Education Law.

