



Hampton Bays Union Free School District Claims Processing

Report of Examination

Period Covered:

July 1, 2012 — August 31, 2013

2013M-333



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State of New York Office of the State Comptroller

Division of Local Government and School Accountability

December 2013

Dear School District Officials:

A top priority of the Office of the State Comptroller is to help school district officials manage government resources efficiently and effectively and, by so doing, provide accountability for tax dollars spent to support district operations. The Comptroller oversees the fiscal affairs of school districts statewide, as well as 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 operations and Board of Education governance. Audits also can identify strategies to reduce costs and to strengthen controls intended to safeguard district assets.

Following is a report of our audit of the Hampton Bays Union Free School District, entitled Claims Processing. 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 and recommendations 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 Hampton Bays Union Free School District (District) is located in the Town of Southampton, Suffolk County. The District is governed by the Board of Education (Board) which comprises five elected members. The Board is responsible for the general management and control of the District's financial and educational affairs. The Superintendent of Schools (Superintendent) is the District's chief executive officer and is responsible, along with other administrative staff, for the day-to-day management of the District under the Board's direction.

The District operates three schools and has approximately 2,350 students and 300 employees. Appropriations budgeted for the 2013-14 fiscal year are approximately \$47 million, funded primarily with real property taxes.

The Board created the position of claims auditor in 2005. By creating this position, the Board delegated its authority to audit claims to the claims auditor. The claims auditor reports directly to the Board and is responsible for formally examining, and allowing or rejecting, all accounts, charges, claims or demands against the District. The Business and Facilities Manager serves as the purchasing agent and is responsible for administering all purchasing activities.

Objective

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

- Are claims audited in a timely manner and properly supported to adequately safeguard District assets?

Scope and Methodology

We examined the District's claims auditing process for the period July 1, 2012 through August 31, 2013.

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 is included in Appendix B of this report.

Comments of District Officials and Corrective Action

The results of our audit and recommendation have been discussed with District officials and their comments, which appear in Appendix A, have been considered in preparing this report. District officials generally agreed with our recommendation and included their corrective action plan as part of their response.

The Board has the responsibility to initiate corrective action. Pursuant to Section 35 of the General Municipal Law, Section 2116-a (3)(c) of the Education Law, and Section 170.12 of the Regulations of the Commissioner of Education, 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, with a copy forwarded to 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 Board should make the CAP available for public review in the District Clerk's office.

Claims Processing

Education Law requires the Board to audit all claims before they are paid,¹ or to appoint a claims auditor to assume the Board's powers and duties to examine and approve or disapprove claims. The Board has delegated this responsibility to audit District claims to a claims auditor. An effective claims processing system ensures that every claim against the District is subjected to an independent, thorough and deliberate review and contains enough supporting documentation to determine whether it complies with statutory requirements and District policies, and that the amounts claimed represent actual and necessary District expenditures.

Purchase orders should be issued prior to purchasing goods or receiving services; purchase orders help control District expenditures by ensuring that purchases are properly authorized and pre-approved and that adequate funds are available. A confirming purchase order refers to a purchase order issued after the goods or services have already been ordered or received. District officials must strictly control and limit the use of confirming purchase orders to emergency purchases because such purchases circumvent the approval and price verification features of the normal purchasing process. There is limited assurance that confirming purchases are made at the best price and quality and are for legitimate and authorized District purposes.

During our audit period, the District paid general fund claims totaling \$17,972,830. District officials have established adequate controls over the claims processing function that ensure claims are audited in a timely manner and are properly supported. Specifically, prior to any purchase of goods or services, the purchasing agent must prepare and approve a purchase order. Once a purchase is made, the accounts payable clerk assembles the claims package, which includes the purchase order, invoice, appropriate supporting documentation and the check signed by the Treasurer. The claims auditor generally conducts a thorough and deliberate audit of each claim before the Board authorizes payment. Upon completing his audit, the claims auditor signs each claim to indicate his approval, signs and dates the warrant that lists all approved claims and then forwards this documentation to the Treasurer for payment.

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 presented at the next regular Board meeting for audit.

Even though the claims auditor appeared to be properly auditing claims, the purchasing agent did not always formally approve all purchases prior to ordering goods and services. We selected and reviewed 25 claims, totaling \$154,909,² to determine if purchase orders were issued prior to the ordering of the goods and services and if claims were for legitimate District purposes and audited prior to payment. Despite minor deficiencies that were discussed with District officials, the claims we tested did appear to be for proper District purposes and audited prior to payment. However, purchase orders for 10 of the 25 claims, totaling \$50,859, were confirming purchase orders which were prepared after the invoices were received from the vendor. For example, the District paid a vendor \$17,960 on September 7, 2012 for special education services; the vendor's invoice was dated July 28, 2012 and the purchase order was dated September 5, 2012. Although all of these purchases appeared to be reasonable and legitimate, the routine use of confirming purchase orders circumvents internal controls and weakens the procurement and budget control process.

Recommendation

1. The purchasing agent should ensure that purchase orders are prepared and approved in advance of any purchase and limit the use of confirming orders to emergency situations.

² See Appendix B for detailed information on our selection process.

APPENDIX A

RESPONSE FROM DISTRICT OFFICIALS

The District officials' response to this audit can be found on the following pages.



HAMPTON BAYS

Union Free School District

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LARS CLEMENSEN
SUPERINTENDENT OF SCHOOLS

December 18, 2013

Mr. Ira McCracken
Chief Examiner
Division of Local Government & School Accountability
New York State Office of the State Comptroller
NYS Office Bldg., Room A310
250 Veterans Memorial Highway
Hauppauge, NY 11788-5533

RE: Response Letter and Corrective Action Plan for Audit 2013M-333

Dear Mr. McCracken:

The Hampton Bays Union Free School District respectfully accepts the Comptroller's Audit Report for the 2012-13 school year and offers the following corrective action plan.

The audit by the State Comptroller's Office focused on the Claims Processing of the District. During the audit, it was noted that several audited purchase orders were created AFTER the goods, services and/or invoice was received, also known as "Confirming POs". The majority of the cases are small dollar instances where the costs to get estimates and follow a Purchase Order process exceed the cost of the service itself. The other instances of confirming Purchase Orders occur in the area of Special Education where the service is mandated by the Committee on Special Education in accordance with the Individuals with Disabilities Act of 1990 (IDEA) but the full cost is not known until the service is performed.

To address the issue of confirming Purchase Orders, the District has already taken several steps. First, the District currently sends a letter to our vendors annually stating that *"HBUFSD will not be responsible for payment of any goods and services that do not have an authorized purchase order prior to the commencement of services or the shipment of goods."* We will continue to send this letter and do so with increased frequency. Second, the District has retrained personnel in our Special Education Office with instructions on when and how to estimate future costs of Special Education Services for the purpose of issuing Purchase Orders. These estimates will likely not be done until there is history with each student and each vendor each year. But, after a month or two of history of services provided, a Purchase Order reflecting an estimated cost for the rest of the year will be issued. Lastly, the Business Office will again conduct a training for all school office

personnel on the proper procedure and importance of issuing Purchase Orders prior to receipt of goods or services. All of these steps have been done in the past and will be completed again before the end of the 2013-14 school year. It is our hope that through continued training and reminders, we will be able to reduce the instance of confirming Purchase Orders.

We appreciate the help that the Comptroller's Audit Team provided us. We have taken actions based upon their report and we continue to improve our fiscal and operational controls. As is the case when tackling large projects, we recognize that it will take an investment of time and resources to create, institute and firmly solidify changes in procedure, process and culture of our school organization.

With regards,

Lars Clemensen
Superintendent of Schools

Cc: Hampton Bays Board of Education
Larry Luce, School Business Administrator
James Conway, Director of Audit Services, NYS Education Department

APPENDIX B

AUDIT METHODOLOGY AND STANDARDS

We interviewed appropriate District officials to obtain an understanding of the organization and the accounting system and reviewed pertinent documents, such as District policies and procedures, Board minutes and financial records and reports. Further, we reviewed the District's internal controls and procedures over the computerized financial databases to ensure that the information produced by such systems was reliable.

After reviewing the information gathered during our initial assessment, we evaluated the District's internal controls for the risk of potential fraud, theft and/or professional misconduct. We then decided on the reported objective and scope by selecting for audit the area most at risk. We selected claims auditing. Even though District officials appeared to have adequate controls over claims processing, there is a certain level of inherent risk that exists with the audit and payment of claims. To accomplish the objective of the audit and obtain valid audit evidence, our procedures included the following:

- We judgmentally selected 25 claims, totaling \$154,909, for review out of a total of 4,207 claims by reviewing all checks paid by the District from its general fund during the period July 1, 2012 through August 31, 2013. We filtered the data to include only check values between \$3,000 and \$20,000. From this filtered list, we selected 25 checks in the following manner: the selected data comprised 353 checks; a number was randomly selected between one and 353 as a starting point, we then counted every fourteenth check until we had a total of 25 checks.
- We reviewed individual claims to confirm that each claim voucher was certified by the purchasing agent, the purchase was approved before it was executed, the supporting documentation included in the claim packet was sufficient, the voucher was audited by the claims auditor and the expenditure was for a valid District purpose.
- We compared the check stub date, the date the check was mailed and the date the warrant certification was completed to determine if the warrant was reviewed and approved prior to a check being mailed and cashed.

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 C

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