



Millbrook Central School District Claims Processing

Report of Examination

Period Covered:

July 1, 2013 – November 19, 2014

2015M-48



Thomas P. DiNapoli

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State of New York Office of the State Comptroller

Division of Local Government and School Accountability

June 2015

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 districts' 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 Millbrook Central 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 New York State 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 Millbrook Central School District (District) is located in the Towns of Washington, Union Vale, Clinton, LaGrange, Stanford and Pleasant Valley in Dutchess County. The District is governed by the Board of Education (Board), which comprises seven elected members. The Board is responsible for the general management and control of District financial operations. 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 Board has appointed a claims auditor who is responsible for formally examining and approving or rejecting all charges, claims or demands against the District.

The District operates four schools with approximately 1,100 students and 191 employees. The District's budgeted expenditures for the 2014-15 fiscal year are \$27.2 million, funded primarily with State aid, real property taxes and grants.

Objective

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

- Did the claims auditor properly review claims to ensure that they were accurate, valid, properly supported and for legitimate District purposes to adequately safeguard District assets?

Scope and Methodology

We examined controls over the District's claims auditing process for the period July 1, 2013 through November 19, 2014. We expanded our scope period through February 17, 2015 to observe the audit of claims.

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 C of this report.

Comments of District Officials and Corrective Action

The results of our audit and recommendations have been discussed with District officials, and their comments, which appear in Appendix A, have been considered in preparing this report. Except as specified in Appendix A, District officials generally agreed with our recommendations and indicated they planned to take corrective action. Appendix B includes our comments on the issues raised in the District's response letter.

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 New York State 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

An effective claims processing system ensures that all claims are subjected to an independent, thorough and deliberate review, and ensures that proposed payments are proper and valid District charges, contain enough supporting documentation to determine if purchases are made in accordance with District policies and represent actual and necessary District expenditures. The Board is responsible for auditing and approving all claims against District funds. The Board delegated this responsibility to a claims auditor and established a claims auditing policy to provide guidance to the claims auditor. Additionally, purchases of goods or services should not be made before purchase orders are issued, to help control District expenditures and ensure that the purchases are properly authorized and pre-approved.

According to its policy, the claims auditor reports directly to the Board and the Board is required to request periodic reports detailing claims audit results. The policy requires the claims auditor to perform a thorough audit of claims by verifying that the claims are properly itemized and supported, the goods or services are actually received and the claims are proper and valid District charges made in accordance with District policy before authorizing payment.

The Board needs to improve the claims auditing process. The District's claims auditor did not properly review claims to ensure that they were accurate, properly supported and for valid District purposes. The District paid 1,909 claims totaling about \$31.2 million during our audit period. We reviewed 72 of these claims totaling approximately \$874,900 to determine if they contained sufficient documentation and were properly authorized and approved, sufficiently itemized and for valid District purposes.¹

We found deficiencies with 49 of these claims (68 percent) totaling approximately \$317,175. These deficiencies included purchase orders issued after the goods were received and a lack of adequate supporting documentation.

- Sufficient documentation was not maintained for 43 claims totaling \$99,079 to determine whether competition was sought for these goods or services as required. The documentation was insufficient because it did not include the reasons specific vendors were used. These claims included professional services (\$35,509), a scoreboard (\$19,900) and a math program (\$12,607).

¹ See Appendix C for more information on our sample selection.

- Documentation for seven claims totaling \$43,148 did not include detailed purchase information on the purchase orders or the contract prices. For example, claims for bus services for athletic transportation totaling \$7,611 did not include support for the original approved contract rates.
- No supporting documentation was available for one claim totaling \$7,330 for physical therapy services to help the claims auditor determine whether District officials requested and received this service.
- Purchase orders for seven claims totaling \$2,922 were dated after the invoice dates. These purchases included operation and maintenance work and supplies and an emergency medical technician at a football game.

These deficiencies occurred because the claims auditor did not conduct a thorough audit as required by the District's policy. The claims auditor told us she did not review purchase orders, check for receipt of goods and services, determine if payments exceeded budget limits or review invoice calculations.

Although the District's policy clearly outlines the claims auditor duties, the claims auditor told us she expected the Treasurer and the Assistant Superintendent for Business, Finance and Operations (Assistant Superintendent) to perform these responsibilities. The claims auditor also told us she did not have access to the District's financial software, which prevented her from checking for duplicate payments or determining whether payments would exceed budgetary limits. The claims auditor relied on invoice dates to prevent duplicate payments.

In addition, instead of reporting directly to the Board, the claims auditor reported to the Treasurer and the Assistant Superintendent. While the claims auditor prepared and submitted a list of claims to the Board, she did not provide any reports detailing the claims audit results nor did the Board request any such reports. The claims auditor also indicated she was unaware of the duties outlined in the District's policy.

Without assuring the availability of adequate supporting documentation, the claims auditor could not determine if the District claims she reviewed and approved were legitimate District expenditures. As a result, there is an increased risk that claims submitted for payment or reimbursement may not be for legitimate District purposes and the Board has no assurance that the District is obtaining the best prices for goods and services or that the goods

or services are actually received. Further, had the claims auditor presented the Board with written reports pointing out the errors and non-compliance problems found during the audit of claims, the Board would have been able to address these deficiencies as soon as they were discovered.

Recommendations

The Board should:

1. Ensure the claims auditor follows the District's claims auditing policy, requiring the claims auditor to report to it directly and present the required reports.

The claims auditor should ensure:

2. The District's claims auditing policy is followed.
3. All claims contain sufficient supporting documentation before approving the claims for payment.

APPENDIX A

RESPONSE FROM DISTRICT OFFICIALS

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

May 7, 2015

NEWBURGH REGIONAL OFFICE
Tennah Blamah, Chief Examiner
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Dear Chief Examiner Blamah:

This letter serves as the official response from the Millbrook Central School District to the Office of the State Comptroller's Draft Audit Report, which covered the period of July 1, 2013 through November 19, 2014, with an expanded scope period through February 17, 2015.

We understand that the first portion of your audit was to complete a risk assessment, during which you evaluated several areas of our district's finances, including, but not limited to: cash receipts and disbursements, claims processing, purchasing, financial condition and oversight, control environment, payroll and personnel services, and information technology. We appreciate the fact that the auditor found our controls and procedures to be satisfactory in most of these areas. As a result of his preliminary assessment, our auditor chose *claims auditing* to be the area of closer study for this OSC audit.

We find all opportunities to hone our practices to be valuable, and we appreciate and take OSC suggestions seriously and want to cooperate fully. That said, we also appreciate the opportunity to provide additional information which will give an important context for some of the observations noted in the OSC report.

What follows are excerpts of the OSC report in *italics*, along with District responses immediately below those excerpts.

We found deficiencies with 49 of these claims (68 percent) totaling approximately \$317,175. These deficiencies included purchase orders issued after the goods were received and a lack of adequate supporting documentation.

In the exit conference discussion, our auditor and his supervisor explained that "lack of adequate supporting documentation" doesn't necessarily mean that the purchase itself wasn't supported with sufficient documentation. This statement is more specific to the provision of information to the claims auditor, that is, that certain documentation was not provided to the claims auditor in order for her to adequately perform her duties. One example includes not writing on the requisition and/or purchase order such things as: "emergency order due to immediate needed repair," "sole source vendor" (in the case of textbooks), and "Pursuant to State Contract/Bid # XXXX". We understand the need to document such information for the file, and we will do so

See
Note 1
Page 11

moving forward. Additionally, we agree and understand that to issue a purchase order after goods are received is a serious concern of control. This happens when people initiate purchases without authorization. This does occur on occasion, and in order to maintain the integrity of our purchasing policies, those people are dealt with on an individual basis. Additionally, once per year, a memo goes out to all employees to make sure that they know that they are not permitted to commit district funds without the approval of the Purchasing Agent.

Sufficient documentation was not maintained for 43 claims totaling \$99,079 to determine whether competition was sought for these goods or services as required. The documentation was insufficient because it did not include the reason a specific vendor was used. These claims included professional services (\$35,509), a scoreboard (\$19,900), and a math program (\$12,607).

Going forward we will provide our claims auditor with all information and support necessary to perform her duties. We wish to point out that the math program referenced is a single-source textbook supplier, for which there is no competition. In the future, we will be sure to write “Single source vendor” directly on the purchase order to acknowledge the necessary exception. Additionally, the professional services referenced above are comprised of occupational therapy, special education services, legal services, and physical therapy services. All of these services have Board-approved contract associated with them, and those contracts are available for inspection by the claims auditor. It is important to note that after the large claims mentioned above are taken into account, there are 40 remaining claims totaling \$31,063. This is an average claim of \$776.58, well below the General Municipal Law and BOE policy thresholds for when competition must be sought.

See
Note 1
Page 11

See
Note 2
Page 11

Documentation for seven claims totaling \$43,148 did not include detailed purchase information on the purchase order or the contract prices. For example, claims for bus services for athletic transportation totaling \$7,611 did not include support for the original approved contract rates.

While the transportation contract is available for claims auditor inspection, in the future, we will also include an annually updated rate sheet for our claims auditor for easy reference.

No supporting documentation was available for one claim totaling \$7,330 for physical therapy services to help the claims auditor determine whether District officials requested and received this service.

We respectfully disagree with this assertion. As a common practice by school districts, there is an “open” purchase order for Physical Therapy services, as it is impractical to create an individual purchase order for each service provided for each child. In this case, each bill comprising the \$7,330 claim for physical therapy was individually signed by the department head to acknowledge receipt of services and to authorize that the claim may be sent to the claims auditor for her approval of payment.

See
Note 3
Page 11

Purchase orders for seven claims totaling \$2922 were dated after the invoice date. These services included operation and maintenance work and supplies and an emergency medical technician at a football game.

We agree that there are limited times when purchase orders have been dated after the service and/or invoice date. When this is required due to emergent cases, we will be sure to document that extenuating circumstance on the purchase order itself. We agree that EMT paperwork needs to be completed in a timely fashion, and we will ensure that this happens.

We understand the opportunities to improve. In terms of corrective action, in order to clarify purchasing requirements and procedure, on March 23, 2015, our Board of Education adopted an updated purchasing policy. Also noteworthy is that the Board of Education will be considering the following practices as it develops its Corrective Action Plan:

- We will review and update our Board of Education policy on claims auditing based on current law and auditor/attorney input.
- We will provide our claims auditor with the necessary training to comply with said policy.
- We will provide our claims auditor with a summary of rates, based on Board approval and updated on a yearly basis, or more frequently, as may be required due to updates.
- In addition to the monthly claims reports that the claims auditor currently sends the Board, the claims auditor will meet with the Board of Education and/or the Audit Committee at least once annually.
- We will write reasons for necessary exceptions on purchases including, “emergency service provided due to (reason),” “single source vendor,” “State contract purchase”, etc. in order to provide adequate documentation for the claims auditor to approve payment.
- We will create a “checklist” of responsibilities based on the updated BOE policy. For each check warrant date that the claims auditor makes approval of payment, the auditor will complete that checklist and certify that she fulfilled her responsibilities vis à vis BOE policy.

We thank you for your time and for the opportunity to participate in this instructive process.

Sincerely,

Thomas M. Hurley
President
Millbrook CSD Board of Education

APPENDIX B

OSC COMMENTS ON THE DISTRICT'S RESPONSE

Note 1

District officials need certain documentation to support emergency and sole source purchases, in addition to making a notation on the requisition or purchase order.

Note 2

The District's purchasing regulation supplement to the policy requires verbal quotes for purchase contracts over \$100 and public works contracts in excess of \$1,000. In addition, like goods from a single vendor are aggregated for totals purchased in one year.

Note 3

The claims auditor did not ensure that adequate documentation showing the dates of service was available for verification.

APPENDIX C

AUDIT METHODOLOGY AND STANDARDS

The objective of our audit was to examine the District's claims processing. To achieve our objective and obtain valid audit evidence, we performed the following audit procedures:

- We interviewed District staff and reviewed the procedures used for processing claims.
- We obtained and reviewed District policies and procedures related to claims processing.
- We obtained a check disbursement list and reconciled it with the bank reconciliations and bank statements to verify our population for sample selection.
- We stratified the claims issued during the audit period by dollar amount and selected 20 claims requiring verbal quotes, 20 claims requiring written quotes and 20 claims requiring either competitive bids or proposals. We selected the claims paid during our audit period from the general fund using a random number generator beginning with the first and ending with the last check written during our period. We chose vendor payments due to the higher risks associated with such payments. We excluded transfers within school funds, employee benefits and payments to schools for special services.
- We selected an additional 12 claims prepared for the February 17, 2015 audit of claims, which we reviewed before the claims auditor reviewed and approved them. We selected our sample from the general fund using the random number generator beginning with the first and ending with the last check written.
- We examined the selected claims to determine if they were properly authorized and contained evidence that the goods were received or the services rendered. We also verified that the claims were mathematically correct and supported by purchase orders (where applicable), contained adequate supporting documentation, were for a valid purpose and were audited prior to payment.

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 objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

APPENDIX D

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