



Harborfields Central School District Claims Processing

Report of Examination

Period Covered:

July 1, 2014 – October 31, 2015

2016M-38



Thomas P. DiNapoli

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State of New York Office of the State Comptroller

Division of Local Government and School Accountability

May 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 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 Harborfields 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 recommendation 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 Harborfields Central School District (District) is located in the Town of Huntington, Suffolk 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. Responsibilities related to the District's finances, accounting records and financial reports are largely those of the Assistant Superintendent for Business. The Business Manager assists with these responsibilities and also serves as the purchasing agent.

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

The District operates four schools and has approximately 3,350 students and 540 full- and part-time employees. The District's operating expenditures for the 2014-15 fiscal year were approximately \$76.2 million. Budgeted appropriations for the 2015-16 fiscal year are \$80.5 million, funded primarily with real property taxes, State aid and grants.

Objective

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

- Did the Board develop an adequate process to ensure that claims were accurate, valid, properly supported and for legitimate District purposes?

Scope and Methodology

We evaluated the District's claims audit process for the period July 1, 2014 through October 31, 2015.

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 B 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 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 findings and recommendation and indicated their plans for corrective action.

The Board has the responsibility to initiate corrective action. 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, 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 system for claims processing ensures that every claim against the District contains enough supporting documentation to determine that purchases comply with statutory requirements and District policies and that the amounts claimed represent actual and necessary expenditures. Conducting a proper audit of claims prior to payment is an integral part of internal controls over the District's payment of claims.

Education Law requires the Board to audit all claims before they are paid 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 claims auditor to determine whether the claims are properly itemized and supported and whether the District was correctly billed in accordance with any bids or quotes obtained or with applicable contract terms. The claims auditor, on behalf of the Board, is responsible for ensuring that claims are legitimate and in accordance with District policy prior to authorizing payment. Other than a few exceptions authorized by Education Law, all claims must be audited before payments can be made.

Department heads and building principals approve purchase requisitions, which should include any price quotes, bids or contracts¹ required by the Board's policy or General Municipal Law (GML). The purchasing agent reviews the purchase requisitions and converts them to purchase orders, thereby approving the purchases. Business Office staff receive invoices and prepare the claim packets for audit. The claims auditor is responsible for reviewing the claims to ensure that they have adequate support and proper approvals and that the purchases are for legitimate District purposes. The Board's claims audit policy requires the claims auditor to verify that the price listed on the voucher or invoice agrees with the purchase order or the contract noted on the purchase order.

The Board developed an adequate process to ensure that claims were accurate, valid, properly supported and for legitimate District purposes. However, the claims auditor's practice is to verify the vouchers or invoices against the purchase orders only. The claims auditor does not verify the vouchers or invoices against quotes, bids or contracts. Furthermore, the claims auditor does not require that

¹ GML allows districts to use State, county or board of cooperative educational services (BOCES) contracts instead of obtaining bids for purchases in excess of established thresholds.

these documents be attached to the claim package. As a result, the claims audit process is not as effective as it should be.

During our audit period, the District paid general fund claims totaling \$36.5 million. We examined 20 claims totaling \$251,773 to determine if the claims were for legitimate District purposes; whether the claims contained price quotes, bids or applicable contracts; and whether the prices charged agreed with quotes, bids or applicable contracts. Although all claims tested were for legitimate District purposes, 17 of the 20 claims examined totaling \$217,765 did not contain the applicable quotes, bids or contracts. Because the claims auditor only verified the prices charged against the purchase orders and did not require quotes, bids or contracts to be attached, the claims auditor had no assurance that the prices charged were in accordance with the associated quotes, bids or contracts. In addition, the claims auditor could not verify that the quotes and bids listed on purchase orders were actually obtained and any contracts referenced actually existed and applied to the claims examined. This increases the risk that the District's funds were not spent efficiently and that purchases made did not comply with GML requirements for competitive purchasing.

Recommendation

1. The claims auditor should verify vouchers and invoices against applicable quotes, bids and contracts, in addition to the purchase orders, to ensure that funds are only being disbursed for District purposes and that the District has complied with GML competitive purchasing requirements.

APPENDIX A

RESPONSE FROM DISTRICT OFFICIALS

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



Harborfields Central School District

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Diana Todaro
Superintendent of Schools

April 13, 2016

Mr. Ira McCracken, Chief Examiner
NYS Office of the State Comptroller
Division of Local Government and School Accountability
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NYS Office Building - Room 3A10
250 Veterans Memorial Highway
Hauppauge, NY 11788-5533

Re: Harborfields Central School District
Response Letter and Corrective Action Plan
Report of Examination 2016M-038 - Claims Processing

Dear Mr. McCracken:

The Harborfields Central School District respectfully accepts the Comptroller's Audit Report of Claims Processing for the period covering July 2014 through October 2015. As noted in your report, although the examined claims conducted by the claims auditor represented purchases for legitimate district purposes, the applicable quotes, bids or contracts were not attached for verification of the prices charged. Currently, the District's purchasing agent approves purchases based upon quotes, contracts and bids in accordance with district policy and GML competitive requirements.

Upon receiving input and guidance provided by your team during the audit, the claims auditing process is currently being modified to incorporate the same process implemented by the District's purchasing agent. Therefore, the claims auditor will ensure that all vouchers and invoices for legitimate purchases are also verified with respect to associated quotes, bids or contracts. This step will further ensure the effectiveness of the claims auditing process.

Additionally, as discussed, the corresponding documentation for purchase orders will be attached to the individual purchase order or stored by the purchasing agent on a shared computer drive, accessible by the claims auditor. Furthermore, the claims auditor's checklist for approving claims will be modified by adding a step that indicates the pricing has been verified and agrees with the applicable quote, bid, or contract, so as to ensure and strengthen the claim certification process.

We would also like to acknowledge the auditing staff who were assigned to our District and thank them for their courtesy and understanding with respect to our district staff. We appreciate the helpful manner in which the audit was conducted, and the advice provided with respect to not only the claims process but also our overall operation.

Sincerely,

Diana Todaro
Superintendent of Schools

DT/vb

APPENDIX B

AUDIT METHODOLOGY AND STANDARDS

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

- We interviewed District officials and staff to gain an understanding of the claims audit process.
- We reviewed and evaluated the District's claims audit policies and procedures.
- We judgmentally selected 20 general fund claims paid during our audit period with no expectation that more or fewer errors would occur in those claims than any other claims. We examined the 20 claims to determine whether controls over the claims audit process were adequate.

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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