



# Port Washington Union Free School District

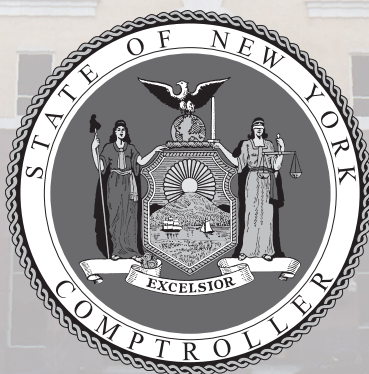
## Claims Processing and Inventories

### Report of Examination

Period Covered:

July 1, 2014 – May 31, 2016

2016M-263



Thomas P. DiNapoli

# Table of Contents

	Page
<b>AUTHORITY LETTER</b>	1
<b>EXECUTIVE SUMMARY</b>	2
<b>INTRODUCTION</b>	4
Background	4
Objective	4
Scope and Methodology	4
Comments of District Officials and Corrective Action	5
<b>CLAIMS PROCESSING</b>	6
Recommendations	7
<b>INVENTORIES</b>	8
Recommendations	9
<b>APPENDIX A</b> Response From District Officials	10
<b>APPENDIX B</b> Audit Methodology and Standards	14
<b>APPENDIX C</b> How to Obtain Additional Copies of the Report	15
<b>APPENDIX D</b> Local Regional Office Listing	16

# State of New York Office of the State Comptroller

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## **Division of Local Government and School Accountability**

October 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 Port Washington Union Free School District, entitled Claims Processing and Inventories. 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*



## State of New York Office of the State Comptroller

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### EXECUTIVE SUMMARY

The Port Washington Union Free School District (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 the District's day-to-day management under the Board's direction. The Board designated a claims auditor for 2014-15 and 2015-16. The claims auditor reports directly to the Board and is responsible for formally examining and approving or disapproving claims before authorizing payment. The director of the Department of Facilities and Operations (facilities department) is responsible, along with other facilities department personnel, for ensuring that the materials inventory is accounted for and accurate records are maintained.

#### **Scope and Objective**

The objective of our audit was to evaluate District controls over claims processing and inventories for the period July 1, 2014 through May 31, 2016. Our audit addressed the following related questions:

- Did the Board ensure that claims were properly supported and for legitimate District purposes?
- Did the facilities department maintain complete and accurate records of materials and supplies acquired and used to ensure that these assets were properly accounted for?

#### **Audit Results**

While the Board developed an adequate policy to ensure claims were accurate, valid, properly supported and for legitimate District purposes, it did not ensure the claims auditor received the necessary training to carry out the policy. Our review of 50 claims showed that 31 totaling \$220,750 did not contain the required quotes, bids or contracts. Without this documentation, the claims auditor could not conduct a thorough audit of claims. Also, 41 of the claims totaling \$277,418 had no receiving documents or packing slips attached to the voucher packages. Our review of 28 open purchase orders (OPOs) totaling \$91,745 showed that 10 were overspent by \$49,001. Although the claims auditor verified the vouchers or invoices against the purchase orders, the claims auditor did not verify that vouchers or invoices agreed with quotes, bids or contracts. The claims auditor also did not verify that receiving documents or packing slips were attached to the claim packages or that sufficient funds were available on the OPOs when approving claims. As a result, there is an increased risk that District officials spent money on goods that were not received or services that were not rendered, or that the goods or services paid for were not obtained at the best or correct prices or used for legitimate District purposes.

The facilities department does not maintain complete and accurate records of materials and supplies. The facilities department has consumable inventories on hand, such as lumber, paint and electrical and plumbing supplies. Although District officials projected they would spend approximately \$480,000 on materials and supplies for 2015-16, they have not adopted procedures that establish the duties, records and control procedures for safeguarding inventories and do not have a reconciliation process to verify what was purchased, used for work orders and on hand. As a result, District officials do not have adequate assurance that materials and supplies are properly protected against the risk of loss, waste or misuse.

### **Comments of District Officials**

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. District officials generally agreed with our recommendations and indicated they planned to initiate corrective action.

# Introduction

## Background

The Port Washington Union Free School District (District) is located in the Town of North Hempstead in Nassau 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 the District's day-to-day 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 serves as the District's purchasing agent.

The Board designated a claims auditor for 2014-15 and 2015-16. The claims auditor reports directly to the Board and is responsible for formally examining and approving or disapproving claims before authorizing payment. The director of the Department of Facilities and Operations (facilities department) is responsible, along with other facilities department personnel, for ensuring that the materials inventory is accounted for and accurate records are maintained.

The District operates seven schools with approximately 5,500 students and 890 employees. Budgeted appropriations for the 2015-16 fiscal year were \$146 million, which were funded primarily with State aid and real property taxes.

## Objective

The objective of our audit was to evaluate District controls over claims processing and inventories. Our audit addressed the following related questions:

- Did the Board ensure that claims were properly supported and for legitimate District purposes?
- Did the facilities department maintain complete and accurate records of materials and supplies acquired and used to ensure that these assets were properly accounted for?

## Scope and Methodology

We examined the District's claims audit process and inventory records for the period July 1, 2014 through May 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 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 recommendations 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 recommendations and indicated they planned to initiate 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 all claims for purchases comply with statutory requirements and District policies and represent actual and necessary District expenditures. 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 before authorizing payment. Other than a few specific exceptions authorized by Education Law,<sup>1</sup> all claims must be audited before payments can be made. It is important for the claims auditor to review detailed receipts to determine whether the claims are properly itemized and supported and whether the District has actually received the goods and services described in each claim. The claims auditor is also responsible for ensuring that the purchases have proper approvals, are for legitimate District purposes and are in accordance with District policy.

The Board's claims audit policy requires the claims auditor to verify the accuracy of all invoices and determine whether purchase orders have been issued in accordance with Board policies before authorizing payment. The District uses open purchase orders (OPOs) for the purchase of goods or services that are needed on a repetitive basis or for priced contractual purchases. Because purchases using OPOs are not approved by the purchasing agent, it is especially important for the claims auditor to verify that sufficient funds are available for this type of purchase.

We judgmentally selected and reviewed 50 claims<sup>2</sup> totaling \$317,084. Although all claims were for legitimate District purposes, 31 claims totaling \$220,750 (62 percent) did not contain the required quotes, bids or contracts. Without this documentation, the claims auditor could not conduct a thorough audit of the claims. We determined that District officials did not receive quotes for three claims totaling \$25,291. In addition, 41 of the claims reviewed totaling \$277,418 (82 percent) did not have receiving documents or packing slips attached to the voucher packages but instead had the receiving copies of the purchase orders, which lacked sign offs from the individuals actually receiving the items or the itemized lists. Finally, we selected 28 OPOs from the claims reviewed totaling \$91,745 and found that 10 were overspent by \$49,001.

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<sup>1</sup> For example, public utility services, postage, freight and express charges

<sup>2</sup> See audit methodology in Appendix B.



These deficiencies occurred because the claims auditor only verified the prices charged against the purchase orders. The claims auditor did not require quotes, bids or contracts to be attached; did not review detailed receipts to determine whether the District actually received the goods and services described; and did not determine whether the OPOs had sufficient funds available before approval. As a result, the Board has no assurance that the prices charged were in accordance with quotes, bids or contracts; that any of the contracts referenced existed or applied to the claims audited; or that the goods were received or services rendered. This increases the risk that the District spent money on goods that were not received or services that were not rendered, that the goods or services paid for were not obtained at the best or correct prices or used for legitimate purposes.

District officials told us that the claims auditor is new to the position and had limited training. When we brought the lack of documentation supporting the voucher packages to District officials' attention, they told us they will implement changes.

## **Recommendations**

The Board and District officials should ensure that:

1. All claims are supported by relevant documents.
2. The claims auditor is properly trained and provided with the documents to show that claims are in accordance with the District policies relating to quotes, bids or contracts; that receiving documents or packing slips are attached to voucher packages; and that OPOs are not overspent.

## Inventories

District officials are responsible for designing controls to ensure inventory records are properly maintained and reconciled periodically and that inventory is safeguarded and protected against the risk of loss, waste and misuse. District officials should establish procedures for the duties, records and control procedures to provide reasonable assurance that materials and supplies purchased, used for work orders and on hand are used for their intended purposes and accounted for. District officials should ensure inventory records are properly reconciled to delivery and usage records and that material discrepancies are investigated and resolved. A count of all stored goods should be conducted at least once a year to ensure the accuracy of inventory records. Records should be updated to reflect the result of physical counts, and any discrepancies should be investigated.

Locked storage areas can provide cost-effective protection for many inventory items. To supplement this protection, usage logs can be used as tracking mechanisms to provide perpetual records for inventory. By having individuals sign for items they use, District officials can track the types, quantities and frequencies of items used. Furthermore, usage records allow managers to verify that only authorized individuals are using inventory items and that the items are being used for District purposes.

The facilities department has consumable inventories on hand for various trades such as lumber, paint and electrical and plumbing supplies used throughout the District for facility maintenance. The maintenance area is located behind the administration building and is within a gated perimeter that is locked each night. Grounds workers and painters also have buildings located at two of the elementary schools. In addition, there are approximately 15 storage containers throughout the District. All buildings and storage containers were securely locked. District officials projected that approximately \$480,000 was to be spent on materials and supplies for 2015-16.

District officials have not adopted procedures to establish the duties, records and control procedures to safeguard these inventories and do not have a reconciliation process to verify what was purchased, used for work orders and on hand. In addition, a count of all stored goods is not conducted at least once a year to ensure the accuracy of the records.

District officials have computer software that is capable of keeping track of inventory but it is not being used. District officials told us that they have budgeted for a consultant position for 2016-17 to help develop procedures and provide training to use the software.

Without proper controls over inventories and appropriate recordkeeping, the facilities department may experience shortages or purchase unnecessary materials, and there is no assurance that materials and supplies acquired are properly protected against the risk of loss, waste and misuse.

## **Recommendations**

District officials should:

3. Adopt and implement written policies and procedures to ensure that consumable items are periodically counted and that adequate inventory records are maintained.
4. Ensure a count of all stored goods is conducted at least once a year to ensure the accuracy of the perpetual records. Records should be updated to reflect the result of physical counts and any discrepancies should be investigated.

**APPENDIX A**

**RESPONSE FROM DISTRICT OFFICIALS**

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

MARY M. CALLAHAN 516-767-5011  
Assistant Superintendent for Business, District Clerk

ELAINE FENICK 516-767-5050  
Human Resources Administrator

WAFA WESTERVELT, Ed.D. 516-767-5040  
Assistant Superintendent for Curriculum,  
Instruction and Assessment

Administration Building  
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Port Washington, NY 11050  
FAX 516-767-5007

October 17, 2016

Tenneh Blamah  
Chief Examiner of Local Government and  
School Accountability  
NYS Office of the State Comptroller—Newburgh Regional Office  
33 Airport Center Drive, Suite 103  
New Windsor, NY 12553

Dear Mr. Blamah:

The Port Washington School District is appreciative both of the audit made by the Newburgh Office of the State Comptroller and the opportunity to respond. We strive for best practices to ensure the protection of the finances of the residents of the Port Washington School District in our overall mission of excellence in education. Below is our response and corrective action plans.

We note that in your executive summary you refer to scope and objective. Your representative was here in the School District for approximately eight weeks and the scope of your audit was far greater than what is noted in your audit letter. We would appreciate you adding to this executive summary that every business function was reviewed but no risk was deemed sufficient to audit any of these areas. We also appreciate that you note that of the 50 claims audited a total of three, totaling \$25,291 did not contain the referenced quote, bid or contract.

### Claims Processing

#### **Recommendations:**

The Board and District officials should ensure that:

1. All claims are supported by relevant documents.
2. The claims auditor is properly trained and provided with the documents to show that claims are in accordance with the District policies relating to quotes, bids or contracts;

and receiving documents or packing slips are attached to voucher packages and that OPOs are not overspent.

### **District Response—Implementation Plan of Action**

*The District agrees that all claims should be supported by relevant documents including packing slips and that the claims auditor will receive additional external training.*

*We agree that without this documentation the claims auditor could not conduct a thorough audit of claims. We agree such documentation should be maintained in the Business Office and there should be a written procedure for any purchase orders to be overridden.*

- 1) Please know that the Board of Education did, through the Assistant Superintendent for Business, indicate their desire that the new claims auditor (as of January 2015) should receive the necessary training to carry out Board policy. In turn, the claims auditor was provided some training by our internal auditing firm. In addition, as part of the audit process, both our external auditor and our internal auditor interviewed our claims auditor to determine her level of knowledge and neither indicated anything lacking. From our perspective your recommendation became necessary due to automation more than anything else. Several years ago the District opted to institute electronic purchase orders rather than manual purchase orders previously created at the building level. Purchase orders now are approved directly on the computer and sent to the Business Office electronically. In the course of that changeover this necessary step of having required quotes, bids or contracts forwarded to the business office was discontinued. Instead these items were maintained in the requisitioner's office. Our new claims auditor would not have been aware of the earlier procedure. However, from the day it was brought to our attention by the examiner from your office that our purchasing process did not include a physical copy of any quotes, bids or contracts, we sent an email to all staff members indicating a corrective process instituted immediately throughout the district requiring all documentation, including packing slips, be sent to the Business Office. Contracts, etc., are being maintained in a binder for daily reference.

Implementation date, June 2016.

- 2) Additional Training Claims Auditor--Our internal claims auditing firm will provide 15 hours of additional training.

Implementation date: November 2016

Person responsible: Mary Callahan, Assistant Superintendent for Business

### **Inventories**

#### **Recommendations :**

3. Adopt and implement written policies and procedures to ensure that consumable items are periodically counted and that adequate inventory records are maintained.

4. Ensure a count of all stored goods is conducted at least once a year to ensure the accuracy of the perpetual records. Records should be updated to reflect the result of physical counts, and any discrepancies should be investigated.

**District Response—Implementation Plan of Action:**

*The District agrees that policies and procedures to protect purchased supplies needs to be developed and inventories should be verified annually.*

It is an accurate statement that the Facilities department does not maintain complete and accurate records of the inventory of materials and supplies. You note that the Facilities department does have inventories of major costly maintenance items such as lumber, electrical, plumbing supplies, tools and paint and we recognize that controls over items such as cleaning products should also be maintained. The District does verify that items ordered are accurately provided by vendors in terms of quantity purchased as evidenced by the attestation on the purchase order receiving copy. It is necessary for our District to expand the personnel in the Facilities department in order to maintain records of this volume. A consultant was hired in June 2016 to begin the inventory. The District is also in the process of canvassing for a Supervisor of Operations (a 2016-2017 budget request) who will take the lead in developing a process to dispense inventory of all supplies and maintain that record thus protecting against risk of loss, waste or misuse.

Implementation date: January 2017

Person Responsible: James Ristano, Director of Facilities

Very truly yours,

Kathleen A. Mooney, Ed.D.  
Superintendent of Schools



## **APPENDIX B**

### **AUDIT METHODOLOGY AND STANDARDS**

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

- We interviewed District staff and reviewed the procedures for processing claims and materials on hand.
- We selected all 125 vendors from facilities account code 1621. We used an electronic spreadsheet function to select one transaction from each vendor with an aggregate of \$2,000 or more to get a population of 100 transactions, which total \$655,309. We selected 50 invoices with odd numbers for 2014-15 and 2015-16 totaling \$317,084 (\$127,245 and \$189,839, respectively).
- We examined 50 claims to determine if the claims were audited prior to payment, properly authorized and mathematically correct. We determined if the claims were supported by itemized invoices, price quotes, bids or contracts. We determined if receiving documents or packing slips were attached and if the claims were for valid and legal purposes and supported by purchase orders. We also examined 28 of the 50 claims to determine if OPOs were overspent.

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.

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