



Southampton Union Free School District

Special Education Claims Processing

Report of Examination

Period Covered:

July 1, 2014 – February 29, 2016

2016M-200



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State of New York Office of the State Comptroller

Division of Local Government and School Accountability

August 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 Southampton Union Free School District, entitled Special Education 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 Southampton 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 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 District operates three schools, with more than 1,695 students and 449 full-time employees. The District's 2014-15 general fund expenditures totaled approximately \$60 million and were funded primarily with State aid, real property taxes and grants. Budgeted appropriations for the 2015-16 fiscal year were approximately \$65.1 million.

The Board has delegated its claims auditing responsibilities to a 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 District also has a purchasing agent who is responsible for administering all purchasing activities.

Objective

The objective of our audit was to examine the claims auditing process within the Pupil Personnel Services Department. Our audit addressed the following related question:

- Did the Board develop an adequate process over special education claims to ensure that claims were accurate, valid and properly supported?

Scope and Methodology

We examined the District's special education claims auditing process for the period July 1, 2014 through February 29, 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 findings and indicated they plan 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 recommendation 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.

Special Education Claims Processing

An effective claims processing system ensures that every claim against the District contains enough supporting documentation to determine whether purchases comply with statutory requirements and District policies, and that the amounts claimed represent actual and necessary District 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. The claims auditor also should determine whether the District was correctly billed in accordance with any bids or quotes obtained or with applicable contract terms. The claims auditor, on the Board's behalf, 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.

The Board developed an adequate process to ensure that special education claims were accurate, valid, properly supported and for legitimate District purposes. However, District officials have not formally documented their procedures in writing, which can lead to a lack of guidance and inconsistencies in how the procedures are carried out.

Pupil Personnel Services (PPS) is the department that handles the District's special education needs. We spoke with two of three senior account clerks¹ in PPS. One of these individuals told us that she did not have any procedures to follow regarding the review and approval of claims. Within PPS, the majority of claims are generated as a direct result of services approved within students' individualized education programs (IEPs). When PPS receives an invoice, the senior account clerk date stamps the invoice and reviews the vendor's contract to verify the rates billed on the invoice. The senior account clerk also accesses the department's data management system to review the students' records and IEPs to determine whether each student has a current prescription for the billed services.

¹ The first to hold the position no longer works for the District, the second transferred to another department and the third is currently in this position.

The senior account clerk also reviews the vendor's service log notes in the data management system to determine whether the dates and services provided to each student match the invoice. If there are no session notes entered, PPS rejects the invoice and contacts the vendor for corrections or additional documentation. If no corrections are needed, the senior account clerk initials and dates the invoice to indicate her review. She then leaves the invoice and related purchase order on her desk for an administrator's² signature. Once an administrator approves the invoice, the senior account clerk makes copies and files them in the PPS office. She then replaces student names from the original invoice and all supporting documentation with student identification numbers and sends the completed claim package to the Business Office.

Once claims reach the Business Office, the accounts payable clerk reviews the documentation and math for each claim and gives the claims to the Assistant Superintendent for Business. The Assistant Superintendent for Business also checks the invoices, math and approvals before approving each claim and giving them to the claims auditor. The claims auditor reviews the claims before authorizing the Treasurer to pay them.

During our audit period, the District processed 107 special education claims from eight vendors, totaling \$570,289. We examined 12 special education claims³ containing 115 invoices and totaling \$198,788 to determine whether rates charged and services rendered agreed with applicable contracts, invoices were adequately itemized and properly supported showing the level of service provided for each date, and the claim contained the claims auditor's and other approvals required by the District's procedures. We found only minor discrepancies, which we discussed with District officials. However, the lack of written procedures increases the chance that claims will not be processed properly or that procedures will not be properly communicated when there are staffing changes.

Recommendation

1. District officials should formalize their special education claims processing procedures in writing, including those that apply to the Business Office and those that are specific to individual departments.

² The PPS Director or, in her absence, the Assistant Superintendent for Business, Assistant Superintendent for Curriculum and Instruction or the Superintendent

³ All claims greater than \$10,000 for the three highest-paid special education vendors

APPENDIX A

RESPONSE FROM DISTRICT OFFICIALS

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

Nicholas J. Dyno, Ed. D.
Interim Superintendent
Maria H. Smith, MBA, SBA
Assistant Superintendent for Business



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July 27, 2017

Mr. Ira McCracken, Chief Examiner
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Hauppauge Regional Office
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250 Veterans Memorial Highway
Hauppauge, NY 11788-5533

Re: Southampton Union Free School District
Claims Processing, Special Education Department
Report of Examination 2016M-200
July 1, 2014 - February 29, 2016

Dear Mr. McCracken:

The Southampton Union Free School District acknowledges receipt of the Draft Report of Examination, 2016M-200, Special Education Department Claims Processing, issued by the Office of the State Comptroller, for the period July 1, 2014 to February 29, 2016. We have reviewed the report and concur with the findings.

On behalf of the District, we would like to express our appreciation for the time, thoughtfulness and professionalism your staff dedicated to our district. We appreciate the positive feedback we received regarding our fiscal procedures and responsibilities.

The audit report contained one recommendation regarding formalizing the claims processing procedures for the Special Education Department. Pursuant to GML #35, the District will develop a policy for claims processing procedures for the Special Education Department and the Business Office, to be submitted as part of our Corrective Action Plan.

Sincerely,

Roberta O. Hunter
Board of Education President

Enclosure

cc: Members of the Southampton Board of Education
Dr. Nicholas Dyno, Interim Superintendent of Schools
Ms. Amy Pierson, District Clerk

MISSION STATEMENT:

Southampton School District, in partnership with our diverse community, will educate students in a safe, supportive environment and equip them with the knowledge, values and skills to become responsible citizens in a dynamic global society.

APPENDIX B

AUDIT METHODOLOGY AND STANDARDS

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

- We reviewed the District's policies and procedures over claims auditing and purchasing.
- We interviewed the claims auditor, District officials and PPS staff to obtain an understanding of procedures related to processing special education claims.
- For the period July 1, 2014 through February 29, 2016, the District paid eight special education vendors \$570,289 for 107 claims. We selected the three highest paid of these vendors and reviewed all payments to them in excess of \$10,000. These three vendors were paid a total of \$412,612 for 70 claims containing 324 invoices; we examined 12 claims containing 115 invoices and totaling \$198,788 to determine whether rates charged and services rendered agreed with applicable contracts, invoices were adequately itemized and properly supported showing the level of service provided for each date, and the claim contained the claims auditor's and other approvals required by the District's procedures.

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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