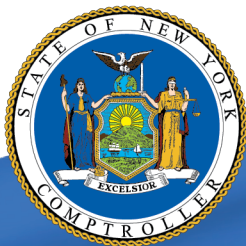


Central Islip Union Free School District

Claims Audit Process

OCTOBER 2018



OFFICE OF THE NEW YORK STATE COMPTROLLER
Thomas P. DiNapoli, State Comptroller

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Report Highlights

Central Islip Union Free School District

Audit Objective

Determine whether claims were adequately supported and properly audited before payment.

Key Finding

The claims auditor approved 33 of 50 claims (66 percent) totaling \$114,333 without documentation to support that the prices charged were accurate.

Key Recommendation

Ensure prices paid are in accordance with quotes, bids or contracts.

District officials agreed with our findings and indicated they plan to initiate corrective action.

Background

The Central Islip Union Free School District (District) is located in the Town of Islip in Suffolk County. The Board of Education (Board) is responsible for managing the District's operations. The Superintendent of Schools is responsible for the District's day-to-day management.

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.

Quick Facts

Employees	1,223
Enrollment	7,683
2017-18 Budgeted Appropriations	\$203.6 million
Number of Claims Processed During Audit Period	9,311
Dollar Amount of Claims Processed During Audit Period	\$156.6 million

Audit Period

July 1, 2016 – February 28, 2018

Claims Audit Process

What Is Effective Claims Auditing?

New York State Education Law¹ (Education Law) requires a board to audit all claims against the district before they are paid or to appoint a claims auditor to assume the board's powers and duties to examine and approve claims. It is important for the claims auditor to determine whether the claims are properly itemized and supported, that the goods or services have been received by the district and that appropriate procedures were followed for the procurement. 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.

Claims Were Audited Without Documentation Supporting the Prices Charged

Board policy requires the claims auditing process to determine that the submitted voucher (invoice) is in agreement with the purchase order or contract upon which it is based. The policy includes a checklist which the claims auditor completes, signs and attaches to each batch of claims to certify they have been audited. The checklist requires claims to be reviewed to ensure that they are mathematically correct, are for proper District expenditures, have receipt of goods or services attached, do not include sales taxes or late fees (if applicable) and have been checked against purchase orders. However, the policy's checklist is deficient because it does not state that claims should be compared to quotes, bids or applicable contracts to determine that the District was correctly charged. In addition, employees are not required to attach the quotes, bids or contracts² to the claims packages. The claims auditor told us that such documentation is available from the department that initiated the purchase. However, he does not routinely request the documentation.

We reviewed 50 claims totaling \$162,011³ and found all contained the claims auditor's and other proper approvals, and were properly itemized and supported. However, the claims auditor approved 33 claims (66 percent) totaling \$114,333 that did not contain proper documentation such as quotes, bids or contractual agreements to verify that the prices charged by the vendors were correct. Therefore, the claims auditor could not determine whether the prices charged

1 New York State Education Law (Education Law) Sections 1709(20-a) and 1724

2 New York State General Municipal Law Section 103(16) 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.

3 See Appendix B, Audit Methodology and Standards, for details on our sample selection.

matched the contract prices, resulting in an ineffective claims auditing system. For example, the claims auditor approved claims for \$20,264 for special education therapy services, \$20,152 for diesel fuel and \$10,600 for home care nursing services without verifying the rates charged were consistent with the written agreements for these goods or services.

We requested the quotes, bids or contracts associated with the 33 claims to determine whether the prices paid were correct. District officials could not provide supporting documents for eight of these claims (24 percent) totaling \$8,085. For example, the District paid \$1,900 for glass repair services and \$1,275 for servicing of an irrigation system without documentation to support the prices paid. We compared the invoices to the supporting documentation for the remaining 25 claims totaling \$20,931 and found the vendors accurately billed the District for all of them.

Without adequate documentation such as quotes, bids or contracts, the claims auditor has no assurance that the District is being billed correctly. As a result, there is an increased risk the District may be paying more than necessary for goods and services.

What Do We Recommend?

1. The Board should revise the claims audit policy to require the claims auditor to compare invoices against applicable quotes, bids and contract information to ensure that the vendors' prices are correct, and that employees attach this documentation to the claims.

Appendix A: Response From District Officials

CENTRAL ISLIP UNION FREE SCHOOL DISTRICT



HOWARD M. KOENIG, Ph.D.
SUPERINTENDENT OF SCHOOLS
KEVIN M. MILLER
ASSISTANT SUPERINTENDENT FOR BUSINESS
SHARON DUNGEE
ASSISTANT SUPERINTENDENT FOR CURRICULUM AND INSTRUCTION
CHRISTOPHER J. BROWN
ASSISTANT SUPERINTENDENT FOR PERSONNEL

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GLENN C. MITCHELL
SANDRA TOWNSEND, *Treasurer*
DENISE RIDGEWAY, *District Clerk*

Post Office Box 9027
Central Islip, New York 11722

October 4, 2018

Division of Local Government and School Accountability
Office of the State Comptroller
NYS Office Building, Room 3A10
250 Veteran's Memorial Highway
Hauppauge, NY 11788-5533

Re: Central Islip Union Free School District
Response from District

Dear Comptroller:

Please accept this letter as the Central Islip Union Free School District's official response to the preliminary draft findings to your recent audit entitled "Claims Audit Process" – 2018M-170.

The District has no objections to your reported recommendation. We believe this recommendation provides constructive feedback and will prove to strengthen the internal audit process, improve our overall financial operation, internal controls and reduce risk. We have begun implementation of your recommendation and will include these procedures in our Corrective Action Plan which will be submitted for consideration upon the receipt of the final report and in accordance with the ninety-day requirement.

On behalf of the Board of Education of the Central Islip Union Free School District, we would like to thank you and your office for providing us this service. We strive to continuously improve internal controls and oversight of District financial operations. To that end, we appreciate your input.

Very truly yours;

Dr. Howard Koenig
Superintendent of Schools

Mr. Norman Wagner
Board of Education President

Appendix B: Audit Methodology and Standards

We conducted this audit 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. To achieve the audit objective and obtain valid audit evidence, our audit procedures included the following:

- We interviewed District officials and staff to determine the process for the audit, approval and payment of claims.
- We reviewed and evaluated the District's claims audit policies and procedures.
- The District paid 9,311 general fund claims totaling \$156,574,429 during our audit period. We excluded from this population 4,124 claims totaling \$84,375,990 for payments \$300 or less and payments not subject to the requirements of the District's policy or GML,⁴ leaving an adjusted population of 5,187 claims totaling \$72,198,439, from which to select our sample. We used the check register to judgmentally select from the adjusted population 50 claims over \$300 totaling \$162,011 to determine whether they were for legitimate District purposes, properly authorized, properly supported and paid at correct rates. This sample size represents approximately 1 percent of the 5,187 claims.

We conducted this performance audit in accordance with GAGAS (generally accepted government auditing standards). 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.

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.

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, pursuant to Section 35 of General Municipal Law, Section 2116-1(3) (c) of New York State Education Law and Section 170.12 of the Regulations of the Commissioner of Education. To the extent practicable, implementation of the CAP must begin by the end of the 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. We encourage the Board to make the CAP available for public review in the Clerk's office.

⁴ Excluded claims included: employee benefits (retirement and insurance); Boards of Cooperative Education Services (BOCES); the Central Islip Public Library; utilities (natural gas, electric, water and internet); postage, other schools; professional and athletic associations; retiree Medicare premiums; debt service; and payments to New York State, Nassau and Suffolk Counties and the Town of Islip.

Appendix C: Resources and Services

Regional Office Directory

www.osc.state.ny.us/localgov/regional_directory.pdf

Cost-Saving Ideas – Resources, advice and assistance on cost-saving ideas

www.osc.state.ny.us/localgov/costsavings/index.htm

Fiscal Stress Monitoring – Resources for local government officials experiencing fiscal problems

www.osc.state.ny.us/localgov/fiscalmonitoring/index.htm

Local Government Management Guides – Series of publications that include technical information and suggested practices for local government management

www.osc.state.ny.us/localgov/pubs/listacctg.htm#lmgm

Planning and Budgeting Guides – Resources for developing multiyear financial, capital, strategic and other plans

www.osc.state.ny.us/localgov/planbudget/index.htm

Protecting Sensitive Data and Other Local Government Assets – A non-technical cybersecurity guide for local government leaders

www.osc.state.ny.us/localgov/lgli/pdf/cybersecurityguide.pdf

Required Reporting – Information and resources for reports and forms that are filed with the Office of the State Comptroller

www.osc.state.ny.us/localgov/finreporting/index.htm

Research Reports/Publications – Reports on major policy issues facing local governments and State policy-makers

www.osc.state.ny.us/localgov/researchpubs/index.htm

Training – Resources for local government officials on in-person and online training opportunities on a wide range of topics

www.osc.state.ny.us/localgov/academy/index.htm

Contact

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www.osc.state.ny.us/localgov/index.htm

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