

Mattituck-Cutchogue Union Free School District

Claims Processing

SEPTEMBER 2018



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

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Report Highlights

Mattituck-Cutchogue Union Free School District

Audit Objective

Determine whether claims were adequately documented, for appropriate purposes and properly audited and approved before payment.

Key Findings

- The controls over claims processing were not always effective. As a result, the purchasing agent approved 12 purchase orders (6 percent) for purchases totaling \$61,109 after the goods and services were ordered.
- The claims auditor approved the claims for these 12 purchases with supporting documentation that included confirming purchase orders (i.e., purchase orders issued after the goods or services have already been ordered or received).

Key Recommendations

- Enforce the District's policy that does not allow confirming purchase orders.
- Approve claims for payment after appropriate procurement policy procedures are followed.

District officials agreed with our recommendations and have initiated or indicated they planned to initiate corrective action.

Background

The Mattituck-Cutchogue Union Free School District (District) serves the Towns of Southold and Riverhead in Suffolk County.

The seven-member Board of Education (Board) is responsible for the general management and control of the District's financial and educational affairs.

The Superintendent of Schools is responsible for day-to-day management along with the Business and Operations Administrator (Administrator), who is also the purchasing agent.

Quick Facts

Employees	107
Enrollment	1,197
2017-18 Appropriations	\$40.8 million

Audit Period

July 1, 2016 – January 31, 2018

Claims Processing

What Is an Effective Claims Process?

New York State Education Law¹ (Education Law) requires a board to audit all claims before they are paid or appoint a claims auditor to assume the board's powers and duties to examine and approve or disapprove claims. An effective claims processing system ensures that every claim against the district is subjected to an independent, thorough and deliberate review and ensures that claims contain enough supporting documentation to determine whether each claim complies with statutory requirements and district policies, and that the amounts claimed represent actual and necessary expenditures.

When processing claims, it is important to ensure that the district's procurement policy is followed, including the requirement that purchase orders are prepared and approved before purchasing goods or receiving services. This is to help control expenditures and ensure that purchases are properly authorized, competitive pricing policies have been complied with and adequate funds are available. Confirming purchase orders² should not be allowed except for emergency purchases because such purchases circumvent the approval and price verification features of the normal purchasing process.

District Officials Used Confirming Purchase Orders

The Board delegated its responsibility to audit claims to a claims auditor. Teachers are responsible for requisitioning services, supplies, and equipment, which then goes to the lead teacher for review and approval. Once the lead teacher approves the requisition, it is sent to the principal, who signs and sends it to the Administrator for approval. The approved requisition is sent to the Treasurer who creates a purchase order and finalizes the process. The Treasurer places the order and, when the invoice is received, the original invoice and all supporting documentation is given to the claims auditor for payment approval.

During our audit period, District officials paid 3,786 nonpayroll general fund claims totaling \$26.5 million. To determine whether the claims process was working effectively, we reviewed 71 of these claims totaling \$143,757³ (containing 198 invoices and purchase orders), verifying that the claims were for legitimate purposes and properly authorized and supported, including that properly approved requisition forms and purchase orders were dated before the invoice dates and that the claims auditor approved the claims before they were paid.

As a result of our review, we found that the purchase orders for 12 purchases (6 percent) totaling \$61,109 were confirming purchase orders, demonstrating

1 New York State Education Law, Sections 1709 and 1724

2 A purchase order that is issued after the goods or services have already been ordered or received.

3 See Appendix B for information on our sampling methodology.

that the controls over claims processing were not always effective. Although these purchase orders were not in compliance with the District's procurement policy, the auditor did not require documentation of why the purchases were not made in conformity with the policy before approving the purchases for payment. For example, a \$44,670 purchase of 30 desktop computers was made on June 20, 2016 and a confirming purchase order was issued on July 1, 2016, 11 days after the order was placed. We also found that 17 purchases totaling \$6,679 (5 percent) did not have a requisition form and the requisition forms for 18 purchases totaling \$4,765 were not dated.

Although all of these purchases appeared to be reasonable and for appropriate purposes, the routine use of confirming purchase orders circumvents internal controls and weakens the procurement and budget control process. In addition, when the purchasing agent approves purchases after they have been made, the opportunity for review of price comparisons as part of the approval process is lost. By not enforcing compliance with the procurement policy and procedures, there is an increased risk for the possibility of abuse or fraud to take place and additional costs to the District.

What Do We Recommend?

The Board should:

1. Enforce its policy of not allowing confirming purchase orders.

The Treasurer should:

2. Discontinue the creation and approval of confirming purchase orders.

The claims auditor should:

3. Approve claim vouchers for payment after appropriate procurement policy procedures have been followed, which includes verifying that each purchase contains an approved purchase order before the procurement is made.

Appendix A: Response From District Officials

JILL M. GIERASCH
Superintendent of Schools

TRICIA DESIDERIO
Director of Pupil Personnel



MATTITUCK-CUTCHOQUE UFSD CENTRAL ADMINISTRATIVE OFFICES

KEVIN J. COFFEY, CPA
Business & Operations
Administrator

GERALDINE DOHERTY
Director of Technology &
Data Coordinator

September 21, 2018

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RE: Response Letter and Corrective Action Plan for Audit 2018M-131

Dear Mr. McCracken:

The Mattituck-Cutchogue Union Free School District respectfully accepts the Comptroller's Audit Report for the period July 1, 2016 through January 31, 2018 and offers the following corrective action plan.

The audit of the State Comptroller's Office focused on the Claims Processing of the District.

Key Findings of the audit were:

- The controls over the claims processing were not always effective. As a result, the purchasing agent approved 12 purchase orders (6 percent) for purchase totaling \$61,109 after the goods and services were ordered.
- The claims auditor approved the claims for these 12 purchases with supporting documentation that included confirming purchase orders.

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Key Recommendations of the audit were:

- Enforce the District’s policy that does not allow confirming purchase orders.
- Approve claims for payment after the appropriate procurement policy procedures are followed.

District Corrective Action Plan

- In September 2017, the District implemented the Requisitioning module of our [REDACTED] financial software. This requires that all purchase orders have a dated and approved requisition before a purchase order can be prepared.
- The District has communicated and addressed the audit report with the Administrative Team.
- Additional training will be provided for all personnel on the District’s Purchasing Policy and related procedures.
- A memo will be sent to anyone who initiates a confirming purchase order, reminding them that this is against policy and that it will not be tolerated in the future.

The District believes that the aforementioned steps will address the existence of confirming purchase orders.

The District appreciates the support and collaboration of the Comptroller’s Audit Team. The District has taken actions based on the report and will continue to focus on improving our fiscal and operational controls.

Kind Regards,

Jill M. Gierasch
Superintendent of Schools

Cc: Mattituck-Cutchoque Board of Education
Kevin J. Coffey, CPA, Business and Operations Administrator

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 reviewed Education Law and the District's procurement policy to gain an understanding of the purchasing and claims auditing process.
- From the 3,786 nonpayroll general fund claims paid during our audit period, we eliminated all utility and Eastern Board of Cooperative Education Services payments, leaving 2,447 claims totaling \$7.5 million. We randomly selected 67 of these claims and judgmentally selected an additional four of the largest claims paid to one vendor for computer equipment. Our sample included 71 claims containing 198 invoices that we reviewed to determine whether they were for legitimate purposes, properly authorized and supported and paid after being audited. The claims reviewed represent nearly 2 percent of the total number of nonpayroll general fund claims paid.

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 relevant population size 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.

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

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