



Southold Union Free School District

Claims Processing

Report of Examination

Period Covered:

July 1, 2011 — April 30, 2013

2013M-183



Thomas P. DiNapoli

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State of New York Office of the State Comptroller

Division of Local Government and School Accountability

August 2013

Dear School District Officials:

A top priority of the Office of the State Comptroller is to help local government officials manage government resources efficiently and effectively and, by so doing, provide accountability for tax dollars spent to support government operations. The Comptroller oversees the fiscal affairs of local governments statewide, as well as 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 operations and Board of Education governance. Audits also can identify strategies to reduce costs and to strengthen controls intended to safeguard local government assets.

Following is a report of our audit of the Southold Union Free 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 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*

Introduction

Background

The Southold Union Free School District (District) is located in the Town of Southold, Suffolk County. The District is governed by the Board of Education (Board) which comprises five elected members. The Board is responsible for the general management and control of the District's financial and educational affairs. The Superintendent of Schools (Superintendent) is the District's chief executive officer and is responsible, along with other administrative staff, for the day-to-day management of the District under the Board's direction.

The District operates two schools, and has approximately 880 students and 170 employees. Appropriations budgeted for the 2012-13 fiscal year were approximately \$27 million, funded primarily with real property taxes.

The Board created the position of claims auditor in 2006. By creating this position, the Board delegated its authority to audit claims to the 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 Assistant Superintendent for Business serves as the purchasing agent and is responsible for administering all purchasing activities.

Objective

The objective of our audit was to examine the claims auditing process. Our audit addressed the following related question:

- Are claims audited in a timely manner and properly supported to adequately safeguard District assets?

Scope and Methodology

We examined the District's claims auditing process for the period July 1, 2011, to April 30, 2013.

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.

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 the findings in our report and indicated they plan to initiate corrective action.

The Board has the responsibility to initiate corrective action. Pursuant to Section 35 of the General Municipal Law, Section 2116-a (3)(c) of the 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

Education Law requires the Board to audit all claims before they are paid,¹ or to appoint a claims auditor to assume the Board's powers and duties to examine and approve or disapprove claims. The Board has delegated its responsibility to audit District claims to a claims auditor. An effective claims processing system ensures that every claim against the District is subjected to an independent, thorough, and deliberate review, and contains enough supporting documentation to determine whether it complies with statutory requirements and District policies, and that the amounts claimed represent actual and necessary District expenditures.

Purchase orders should be issued prior to purchasing goods or receiving services; purchase orders help control District expenditures by ensuring that purchases are properly authorized and pre-approved, and that adequate funds are available. A confirming purchase order refers to a purchase order issued after the goods or services have already been ordered or received. District officials must strictly control and limit the use of confirming purchase orders to emergency purchases because such purchases circumvent the approval and price verification features of the normal purchasing process. There is limited assurance that confirming purchases are made at the best price and quality, and are for legitimate and authorized District purposes.

During our audit period, the District paid claims totaling \$24,547,479.² District officials have established adequate controls over the claims processing function that ensure claims are audited in a timely manner and are properly supported. Specifically, prior to any purchase of goods or services, the purchasing agent must prepare and approve a purchase order. Once a purchase is made, a clerk in the Business Office assembles the claims package, which includes the purchase order, invoice, appropriate supporting documentation, and a copy of the check signed by the Treasurer. The claims auditor generally conducts a thorough and deliberate audit of each claim before the Board authorizes payment. Upon completing her audit, the claims auditor stamps and signs each claim to indicate her approval, signs and dates the warrant that lists all approved claims, and then forwards this documentation to the Treasurer for payment.

¹ The Board may, by resolution, authorize payment in advance of audit for claims for public utility services (electric, gas, water, sewer, and telephone), postage, freight, and express charges. However, the claims for such prepayments must be presented at the next regular Board meeting for audit.

² For the 2011-12 fiscal year, the District disbursed 2,243 checks totaling \$11,464,484 and from July 1, 2012 through April 30, 2013, the District disbursed 1,829 checks totaling \$13,082,995.

Even though the claims auditor appeared to be properly auditing claims, the purchasing agent did not always formally approve all purchases prior to ordering goods and services. We selected and reviewed 25 claims, totaling \$145,637³ to determine if purchase orders were issued prior to the ordering of the goods and services, and if claims were for legitimate District purposes and audited prior to payment. Despite minor deficiencies that were discussed with District officials, the claims we tested did appear to be for proper District purposes and audited prior to payment. However, purchase orders for six of the 25 claims totaling \$33,539 were confirming purchase orders which were prepared after the invoice was received from the vendor. For example, the District paid a vendor \$3,025 on October 13, 2011, for an advertisement in a newspaper; the vendor's invoice was dated August 25, 2011, and the purchase order was dated September 2, 2011. Although all of these purchases appeared to be reasonable and legitimate, the routine use of confirming purchase orders circumvents internal controls and weakens the procurement and budget control process.

Recommendation

1. The purchasing agent should ensure that purchase orders are prepared and approved in advance of any purchase and limit the use of confirming orders to emergency situations.

³ See Appendix B for detailed information on our selection process.

APPENDIX A

RESPONSE FROM DISTRICT OFFICIALS

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

SOUTHOLD UNION FREE SCHOOL DISTRICT

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

Re: Claims Processing – Audit 2013M-183

August 14, 2013

Dear Mr. McCracken:

The following audit response is being submitted based upon the above referenced audit, which was presented to the District, in draft format, on July 31, 2013.

During the audit, it was found that the purchasing agent did not always formally approve all purchase orders prior to ordering goods and services. This was true in six of the twenty five claims that were sampled and reviewed by your office. The District agrees that six of the twenty five claims were confirming and that confirming purchase orders should be limited to emergency situations.

While the District realizes that this review was not of all claims processed, it does not believe that the rate of confirming purchase orders observed in the sample size is indicative of the total population of claims processed.

The District will provide your office with a corrective action plan within ninety days of the final audit report being released.

Please contact me with any questions.

Sincerely,

Paulette Ofrias, President
Board of Education

APPENDIX B

AUDIT METHODOLOGY AND STANDARDS

We interviewed appropriate District officials to obtain an understanding of the organization and the accounting system, and reviewed pertinent documents, such as District policies and procedures manuals, Board minutes, and financial records and reports. Further, we reviewed the District's internal controls and procedures over the computerized financial databases to ensure that the information produced by such systems was reliable.

After reviewing the information gathered during our initial assessment, we evaluated the District's internal controls for the risk of potential fraud, theft, and/or professional misconduct. We then decided on the reported objective and scope by selecting for audit the area most at risk. We selected claims auditing. Even though District officials appeared to have adequate controls over claims processing, there is a certain level of inherent risk that exists with the audit and payment of claims. To accomplish the objective of the audit and obtain valid audit evidence, our procedures included the following:

- We judgmentally selected 25 claims, totaling \$145,637, for review out of a total of 4,072 claims by reviewing all checks/electronic payments made by the District during the period July 1, 2011, to April 30, 2013. We filtered the data to include only checks over \$3,000 and below \$10,000, excluding utilities, tuition to other school districts, employee benefit payments, eastern Suffolk BOCES payments, and wire transfers related to payroll expenses. From this filtered list, we selected 25 checks in the following manner: 10 of the highest checks, 10 of the lowest checks, and five in the middle, comprising checks made payable to individuals and to an electronics and appliance store.
- We reviewed individual claims to confirm that each claim voucher was certified by the purchasing agent, the purchase was approved before it was executed, the supporting documentation included in the claim packet was sufficient, the voucher was audited by the claims auditor, and the expenditure was for a valid District purpose.
- We compared the check stub date, the date the check was mailed, the audit date listed in the claims auditor's work record, and the date the warrant certification was completed to determine if the warrant was reviewed and approved prior to a check being mailed and cashed.

We conducted this performance audit in accordance with generally accepted government auditing standards (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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AND SCHOOL ACCOUNTABILITY

Andrew A. SanFilippo, Executive Deputy Comptroller
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