

# Hampton Bays Union Free School District

## Claims Processing

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AUGUST 2018

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

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# Report Highlights

## Hampton Bays Union Free School District

### Audit Objective

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

### Key Findings

- The claims auditor approved claims for payment for purchases containing confirming purchase orders.
- The purchasing agent approved 34 percent of the purchases tested, or 74 invoices for \$19,845, after the goods and services were ordered.

### Key Recommendations

- Enforce the District's policy of not allowing confirming purchase orders.
- Develop procedures and/or a policy governing employees' use of the District's Amazon Prime (Amazon) account.

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

### Background

The Hampton Bays Union Free School District (District) is located in the Town of Southampton in Suffolk County.

The five-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 the District's day-to-day management along with the Assistant Superintendent for Finance and Operations (ASFO), who is also the purchasing agent.

#### Quick Facts

Employees	516
Enrollment	2,162
2017-18 Budgeted Appropriations	\$50.8 million

### Audit Period

July 1, 2016 – December 31, 2017

# Claims Processing

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## What Is an Effective Claims Process?

New York State Education Law<sup>1</sup> (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. The Board has delegated its claims audit responsibility to a claims auditor, responsible for performing an independent, thorough and deliberate review that ensures each claim contains enough supporting documentation to determine if the amounts claimed represent legitimate District expenditures and comply with Board-adopted policies.

When processing claims, it is important to ensure that the District's purchasing policy is followed, including the requirement that purchase orders are prepared and approved prior to purchasing goods or receiving services. This is to help control expenditures and ensure that purchases are properly authorized, that competitive pricing policies have been complied with and that adequate funds are available. Confirming purchase orders<sup>2</sup> should not be allowed except for emergency purchases because such purchases circumvent the approval and price verification features of the normal purchasing process.

## The District Used Confirming Purchase Orders

Once purchases are made, the accounts payable clerk assembles the claims packets (including the purchase order, invoice, appropriate supporting documentation and the check signed by the Treasurer) and submits these, along with the warrant,<sup>3</sup> to the claims auditor bi-weekly for review. The claims auditor reviews and approves each claim and the warrant to ensure that the claims represent legitimate District expenditures and that District officials have complied with Board-adopted policies when procuring goods and services. He then signs each claim to indicate his approval, signs and dates the warrant and forwards the claims to the Treasurer for payment. However, the claims auditor approved claims for payment for purchases containing confirming purchase orders.

We judgmentally selected 61 claims, containing 219 vendor invoices totaling \$195,606,<sup>4</sup> to determine if the purchasing agent properly approved purchase orders before employees purchased goods and services, and if claims were for legitimate District purposes and were audited prior to payment. While all of the purchases appeared to be for appropriate purposes, claims were not adequately audited and approved since our testing disclosed that 34 percent of our sample,

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1 Sections 1709 (power to appoint claims auditor) and 1724 (form and audit of claims)

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

3 A warrant is a list of unpaid claims.

4 See Appendix B for information regarding our sample selection.

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The routine use of confirming purchase orders circumvents internal controls and weakens the procurement and budget control process.

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or 21 of the 61 claims, contained confirming purchase orders for 74 invoices, totaling \$19,845. More than 71 percent of these confirming orders were for purchases made through the District's Amazon account. For example, on July 22, 2016, the District paid Amazon.com \$3,588 for a replacement stage projector lens purchased on June 29, 2016 with a purchase order dated June 30, 2016. The ASFO stated that sometimes there are grey areas where an item, such as a teaching tool for a special education child, is required right away because the wait for a purchase order could affect a child's learning, but there are also instances where employees bypass the purchasing process and prefer to instantly make their purchases through the District's Amazon account.

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. 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. Furthermore, allowing the purchase of goods through Amazon has a high level of inherent risk because of the ease with which employees can make these purchases without pre-approvals. By not enforcing compliance with the District's procurement policy and providing sufficient oversight of the use of the District's Amazon account, District officials have limited assurance that all Amazon purchases were actual and necessary District expenditures. This risk could be mitigated if only one person were able to make purchases and only did so after the requestor obtained approval from the purchasing agent and claims auditor. We discussed other minor discrepancies with District officials,

## **What Do We Recommend?**

The Board should:

1. Enforce its policy of not allowing confirming purchase orders.
2. Develop procedures and/or a policy governing employees' use of the District's Amazon account, including requiring compliance with the Board-adopted policies.

The purchasing agent should:

3. Only accept purchase orders created prior to an invoice and discontinue approving confirming purchase orders.

The claims auditor should:

4. Not approve voucher packages for payment unless appropriate procurement policies were followed, including an approved purchase order before the procurement.

# Appendix A: Response From District Officials

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## HAMPTON BAYS Union Free School District

Administrative Offices: 86 Argonne Road East, Hampton Bays, NY 11946 • Tel: (631) 723-2100 • Fax: (631) 723-2109

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LARS CLEMENSEN  
SUPERINTENDENT OF SCHOOLS

August 28, 2018

Mr. Ira McCracken  
Chief Examiner  
Division of Local Government & School Accountability  
New York State Office of the State Comptroller  
NYS Office Bldg., Room A310  
250 Veterans Memorial Highway  
Hauppauge, NY 11788-5533

**RE: Response Letter and Corrective Action Plan for Audit 2018M-68**

Dear Mr. McCracken:

The Hampton Bays Union Free School District respectfully accepts the Comptroller's Audit Report for the period July 1, 2016 through December 31, 2017 and offers the following corrective action plan.

The audit by the State Comptroller's Office focused on the Claims Processing of the District. During the audit, it was noted that, "although all of these [audited] purchases appeared to be reasonable and legitimate," several purchase orders were created after the goods, services and/or invoice was received, also known as a "Confirming PO." The majority of the cases are small dollar instances where one particular vendor, Amazon.com, was used. Among the other instances were several claims in the Special Education Department relating to services mandated by the Committee on Special Education in accordance with the Individuals with Disabilities Act of 1990 (IDEA). In those cases, the full cost is not known until the service is performed.

To address the issue of Confirming Purchase Orders, the District has already taken several steps. First, the District currently sends an annual letter to our vendors stating:

*"HBUFSD will not be responsible for payment of any goods and services that do not have an authorized purchase order prior to the commencement of services or the shipment of goods."*

Second, the District has retrained personnel using a training piece we developed, "The Process of a Purchase" (Attached). This training module has been delivered to all those who initiate purchase requisitions and budget managers. Third, a memo will be sent to

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anyone who initiates a confirming PO reminding them that this is against policy and that it will not be tolerated in the future (Attached).

We believe that these steps will address the existence of Confirming Purchase Orders. However, as noted in our exit discussion, in attempting to obtain the best value for goods at the lowest prices for the taxpayer, 21<sup>st</sup> century commerce like Amazon.com, create a challenging situation. Today, the cheapest source of many small purchases is Amazon.com or similar real-time websites. In our experience and through researching quotes, Amazon often has the best price, the inventory, and often offer free shipping. The disadvantage to using Amazon, however, is that use their own purchasing system and do not accept our purchase orders. Additionally, Amazon sometimes has unusual items for a short period of time and then they either are out of them or they can no longer get them when the requisition is complete. Moving forward, the Business Office will consider the use of a “Blanket Purchase Order,” as recommended by our OSC Auditing Team.

As we move ahead in the 21<sup>st</sup> century, we encourage a conversation on how public entities, like school districts, can take advantage of rapid, real-time systems like Amazon, and still remain in full accordance with purchasing law. This juxtaposition sometimes places us in a situation of not getting the best price for an item. In the world of a property tax levy cap, we work with integrity to find ways to spend the least amount of money for goods and services in the most efficient and legal way.

We appreciate the help and collaboration of the Comptroller’s Audit Team. The District has taken actions based upon their report and we continue to improve our fiscal and operational controls. As is the case when tackling large projects, we recognize that it will take an investment of time and resources to create, institute, and firmly solidify changes in procedure, process, and culture of our school organization.

With regards,

Lars Clemensen  
Superintendent of Schools

Cc: Hampton Bays Board of Education  
Larry Luce, Assistant Superintendent for Finance and Operations  
James Conway, Director of Audit Services, NYS Education Department

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## The Flow of a Purchase

1. Staff member, Teacher, Administrator identifies need for a product or service to be purchased.
  - a. Q – Was this item budgeted for?
  - b. Q – Do you have sufficient money in your budget to cover this item?
  - c. Q – Can you request a budget transfer?
  - d. End Goal - you need enough money in the proper code in your budget to pay for the item BEFORE you can even start the Requisition/ Purchase Order process.
2. Person who wishes to purchase the items with the help of Business Office Determines IF the item requires multiple quotes, an RFP, or a bid.
3. If multiple quotes are necessary the person wishing to purchase the item(s)/service must get quotes from other reasonable suppliers of the item or service.
  - a. For items or services under \$999 no additional quote is required, but may be requested.
  - b. For items or services costing \$1,000 to \$2,999 at least two verbal or written quotes must be documented.
  - c. For items or services costing \$3,000 to \$19,999 a minimum of 3 written quotes are required.
  - d. For items or services over \$20,000 a bid or RFP must be created.
4. The Requisition must be entered into the system. The system will not allow the entry of the requisition UNLESS there is sufficient funds in the code being encumbered for the cost of the requisition.
5. The Requisition is then approved by 1-3 different levels of management before the purchase order is generated. This involves a review of the steps above to make sure that all documentation and rationale for the purchase is included.
6. After approval, the Requisition is converted to a Purchase Order and the PO is issued and printed in 4 copies.
  - a. 1 to the Vendor aka Vendor Copy
  - b. 1 to the PO file aka Purchasing Copy
  - c. 1 attached to all the above documentation which will eventually have the invoice an check stub attached aka File Copy
  - d. 1 to the person who started the requisition so that they may sign for receipt of the item or service aka Receiver Copy
7. AT THIS TIME - THE VENDOR MAY BE CONTACTED AND THE ITEM/SERVICE MAY BE VERBALLY ORDERED OR CONFIRMED.

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8. Vendor delivers item/service to the school
    - a. Staff at school signs the receiver copy of the PO indicating if PO has been fulfilled or if there are any discrepancies with item/service.
    - b. Receiver Copy is then sent back to the Business Office to be attached to document packet and as authorization to issue payment.
  
  9. Invoice for item/service arrives from Vendor.
    - a. Business Staff match invoice with receiver copy of PO
      - i. Is receiver signed?
      - ii. Is quantity of item the same as PO?
      - iii. Is price the same as PO?
      - iv. Was everything delivered on time, in good condition?
      - v. Was Vendor the same as Vendor on PO?
      - vi. Is original purchaser satisfied with item/service and agrees to pay Vendor?
    - b. Business Office Issues check for Invoiced/PO amount
  
  10. Check and complete purchase package from step 1 to 9 above is reviewed by an independent Claims Auditor who has the authority of the Board of Education to reject any check for any reason above and/or stop payment to any vendor.
  
  11. Check is Mailed to Vendor

To properly comply with State Law and Board of Education Policy each step above should be followed in order. Normally this will take a few days. On rare occasions, things can be expedited in an emergency. **Never**, should this process be ignored or altered.

Confirming Purchase Orders. Are illegal. Occur when someone ignores the steps above and, for example, goes from step 1 to 7 to 9 and then back to step 4. Again, this is illegal.



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# HAMPTON BAYS

## Union Free School District

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**TO:** \_\_\_\_\_

**FROM :** Larry Luce, Assistant Superintendent of Finance & Operations

**Date:** \_\_\_\_\_

**RE:** **Violation of Board of Education Policy**

The invoice from \_\_\_\_\_

Invoice # \_\_\_\_\_ which you recently submitted for payment in the amount  
of \_\_\_\_\_ does not appear to have a Purchase Order associated with it AND/OR  
the Purchase Order appears to have been created **AFTER** the product or invoice was received.

Therefore, this is a Confirming Purchase Order, which is against Board Policy and State Law. Please  
refrain from ordering goods or services without first having a valid Purchase Order. Continued violation  
of this Board Policy may result in disciplinary action.

## Appendix B: Audit Methodology and Standards

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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 reviewed Education Law; local management guides and District purchasing policy for purchasing and auditing claims.
- We interviewed key District officials to gain an understanding of the claims process.
- The District paid 4,320 general fund claims totaling \$25,179,644 during our audit period. We excluded from this population 1,243 claims totaling \$19,660,543 at low risk of containing confirming purchase orders,<sup>5</sup> leaving an adjusted population of 3,077 claims totaling \$5,519,100 from which to select our sample. We used the cash disbursement journal to select from the adjusted population all 20 Amazon claims (containing 110 invoices) and to judgmentally select 41 non-Amazon claims (containing 109 invoices) of \$250 or more for a total of 61 claims containing 219 invoices and totaling \$195,606 to determine if they were for legitimate district purposes, properly authorized, properly supported and paid at correct rates. This sample represents approximately 3.5 percent of the amount paid in the adjusted population, or approximately 2 percent of the 3,077 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 Education Law and Section 170.12 of the Regulations of the Commissioner of

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<sup>5</sup> Excluded claims included: employee benefits (retirement and insurance); bus service; Boards of Cooperative Education Services (BOCES); the Hampton Bays Public Library; utilities (natural gas, electric, water and internet); other schools; professional and athletic associations; retiree medicare premiums; text books; public accounting firms; debt service; payments to New York State, Nassau and Suffolk Counties and the Town of Southampton; financial software and the Hampton Bays Post Office.

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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 District Clerk's office.

## Appendix C: Resources and Services

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### **Regional Office Directory**

[www.osc.state.ny.us/localgov/regional\\_directory.pdf](http://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](http://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](http://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](http://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](http://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](http://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](http://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](http://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](http://www.osc.state.ny.us/localgov/academy/index.htm)

## Contact

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