

**NAWROCKI SMITH, LLP**  
**MEMORANDUM**

To: The Board of Education  
Sachem Central School District  
51 School Street  
Lake Ronkonkoma, NY 11779

From: Ernest Patrick Smith, CPA/CFF, CVA, and CFE  
Nawrocki Smith LLP, Certified Public Accountants & Business Consultants

Date: August 10, 2012

Re: Claims Audit 2011-2012 Year-End Summary Report

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We have provided claim auditing services to the Sachem Central School District for the time period commencing July 1, 2011 through June 30, 2012. The services we performed, as outlined in our initial proposal included reviewing all claims against the District.

The Claims Audit function is an integral component of a properly designed system of internal controls. The claims auditor is responsible for ensuring that proper documentation and authorization are provided for each claim presented to the District for payment. This responsibility includes formally examining, allowing, or rejecting all charges, claims, or demands against the District.

We performed the following claim audit procedures during each audit:

- (1) Verification of the accuracy of invoices & claim forms.
- (2) Ensuring proper approval of all purchases; checking that purchases constitute legal expenses of the school district.
- (3) Determining that purchase orders have been issued in accordance with Board of Education policy and applicable state laws
- (4) Comparison of invoices or claims with previously approved contracts
- (5) Reviewing price extensions, claiming of applicable discounts, inclusion of shipping and freight charges
- (6) Approving all charges that are presented for payment which are supported with documentary evidence indicating compliance with all pertinent laws, policies and regulations.

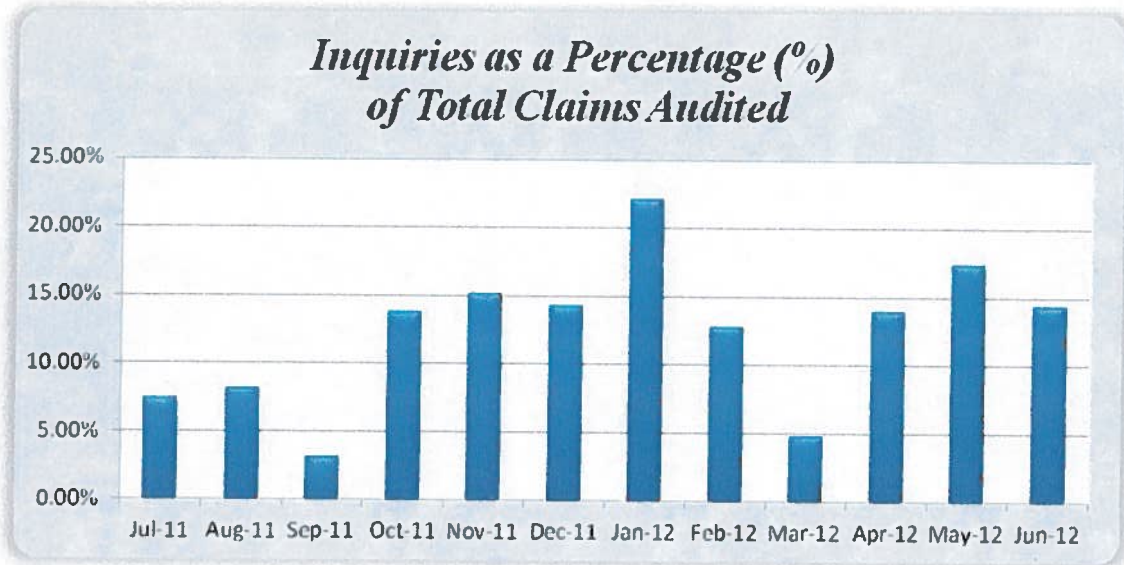
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We applied the above referenced audit procedures to 9,550 claims against the District in the amount of \$292,176,332.31 during the time period of July 1, 2011 through June 30, 2012. Based upon the audit process applied, we noted inquiries and/or observations pertaining to 1,074 claims, which are categorized on a monthly basis as follows:

Reason For Inquiry	Jul-11	Aug-11	Sep-11	Oct-11	Nov-11	Dec-11	Jan-12	Feb-12	Mar-12	Apr-12	May-12	Jun-12	Total
Invoice date precedes PO date	13	27	21	19	17	14	84	11	10	19	31	12	278
Invoice over 90 days outstanding	7	6	4	6	17	18	49	24	33	25	29	33	251
Insufficient supporting backup	10	6	3	8	14	14	16	8	15	8	13	44	159
Missing Prices and Extensions Verification	-	-	-	25	41	17	19	7	3	1	12	4	129
Wrong remittance address	-	11	7	9	5	7	17	6	6	4	6	9	87
Not an original invoice	1	1	-	3	3	3	14	10	3	4	16	17	75
Incorrect check amount	1	2	4	3	4	3	8	1	-	7	6	2	41
Incorrect vendor name	4	-	3	5	-	2	1	1	1	2	1	-	20
Items Purchased not on Contract/Bid	-	-	-	-	5	-	-	1	-	2	-	-	8
Missing receiving signature on invoice or PO	-	1	-	-	2	-	-	2	-	1	-	-	6
Discount not applied	2	1	-	1	-	1	-	-	-	-	-	-	5
Check issued prior to auditors approval	-	-	-	-	-	1	-	-	1	-	-	1	3
Missing Purchasing Agents Signature on PO	-	-	-	3	-	-	-	-	-	-	-	-	3
Contract/Bid Price Inconsistent w/ Invoice	-	-	-	-	1	-	1	-	-	-	-	-	2
Missing Student Signature (ECAAF only)	-	-	-	-	-	-	-	-	-	2	-	-	2
Purchase Order not dated	1	1	-	-	-	-	-	-	-	-	-	-	2
Quote information not attached	1	-	-	-	-	-	1	-	-	-	-	-	2
Invoice Modified	-	-	-	-	-	1	-	-	-	-	-	-	1
<b>Total Number (#) of Inquiries</b>	<b>40</b>	<b>56</b>	<b>42</b>	<b>82</b>	<b>109</b>	<b>81</b>	<b>210</b>	<b>71</b>	<b>72</b>	<b>75</b>	<b>114</b>	<b>122</b>	<b>1,074</b>

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Provided below is a graphical representation of the number of inquiries as a percentage (%) of total claims during the time period of July 2011 through June 2012:



We would like to commend the Business Office for making necessary records available to us as requested. Based upon our observations, it is evident that Business Office Personnel are making best efforts to comply with the purchasing requirements of the District. In an effort to assist the District improve the process, we have noted the following observations/recommendations:

We observed that 278 out of 9,550 total claims, or approximately three percent (2.91%), were confirming purchase orders during the 2011/2012 fiscal year. The practice of issuing confirming purchase orders bypasses the encumbrance process and does not permit the Purchasing Agent to consolidate orders or obtain the lowest possible prices in an effort to minimize costs. Additionally, confirming purchase orders represent that an employee has committed District funds without proper approval. It should be noted that 29 out of the 278 confirming purchase orders, or approximately ten percent (10.43%) were the result of the District not having a fully executed contract as of the date of the invoice.

- *We recommend that all purchases be subject to the encumbrance process and that purchase orders only be created and approved by the Purchasing Agent. Purchases made on an emergency basis should be supported by a memorandum or letter justifying need for the confirming purchase order.*

We observed that 251 out of 9,550 claims, or approximately three percent (2.63%), were for invoices that were over ninety (90) days outstanding. It is important that invoices be submitted to the Business Office for processing in a timely manner to avoid the potential of penalties and duplicate payment processing. It should be noted that 2 out of the 251 invoices that were over ninety (90) days outstanding, or approximately one percent (0.80%) were the result of the District not having a fully executed contract as of the date of the invoice.

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- *We recommend that all invoices are to be submitted to the Business Office in a timely manner for expedient processing.*

We observed that 159 out of 9,550 total claims, or approximately two percent (1.66 %), included voucher packets with insufficient supporting backup. It is essential that sufficient supporting backup is provided in order to ensure that:

1. The encumbrance process has been followed
  2. The expense is for a legitimate purchase
  3. Goods/services have been received/provided
  4. Payment is not made in duplicate
- *We recommend that all backup be presented with the voucher for payment. If sufficient backup is unattainable at the time of payment, the payment should be held and not be presented for payment until all the proper backup is available.*

We observed that 129 out of 9,550 total claims, or approximately one percent (1.35%), included voucher packets that did not contain the required prices and extensions verification stamp. It is essential that all payments be verified to ensure payments are made in accordance with existing contracts and bids.

- *We recommend that the prices and extensions be verified for all invoices prior to the claims audit process to ensure accurate payments.*

We have observed strong clerical support within the Sachem Central School District Business Office as we noted very few, or no, occurrences of:

- Discount not applied
- Contract/Bid Price inconsistent with invoice
- Check issued prior to auditors approval
- Incorrect check amount
- Incorrect vendor name
- Invoice modified
- Items purchased not on Contract/Bid
- Missing receiving signature on invoice or PO
- Missing Purchasing Agent's signature on PO
- Missing Student Signature (ECAAF only)
- Not an original invoice
- Purchase Order not dated
- Quote information not attached
- Wrong remittance address

If you require any further information or have any questions on this year-end summary, please feel free to contact Ernest Patrick Smith at (631) 756-9500.