



# Sherman Central School District Claims Processing

Report of Examination

Period Covered:

July 1, 2014 – September 9, 2016

2016M-352



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# State of New York Office of the State Comptroller

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## **Division of Local Government and School Accountability**

December 2016

Dear School District Officials:

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

Following is a report of our audit of the Sherman Central 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 New York State 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 Sherman Central School District (District) is located in the Towns of Chautauqua, Clymer, French Creek, Mina, North Harmony, Ripley, Sherman and Westfield in Chautauqua County (County). The District is governed by the Board of Education (Board), which is composed of 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 is the District's chief executive officer and is responsible, along with other administrative staff, for the District's day-to-day management under the Board's direction.

The District operates one school with approximately 400 students and 120 employees. The District's budgeted appropriations for the 2015-16 fiscal year were approximately \$9.5 million, which were funded primarily with State aid and real property taxes.

The Board has delegated its claims auditing duties to a claims auditor who reports directly to the Board. The claims auditor is responsible for examining and allowing or rejecting all accounts, charges, claims or demands against the District. The Business Administrator is responsible for general oversight of all purchasing activities, while the Superintendent serves as the District's purchasing agent and approves all purchase orders.

## Objective

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

- Are claims adequately supported and approved for payment by the claims auditor?

## Scope and Methodology

We examined the District's claims auditing process for the period July 1, 2014 through September 9, 2016.

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. 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.

**Comments of  
District Officials and  
Corrective Action**

The results of our audit and recommendations 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 our recommendations and indicated they planned to initiate corrective action.

The Board has the responsibility to initiate corrective action. Pursuant to Section 35 of General Municipal Law, Section 2116-a (3)(c) of New York State 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 that the Board audit claims before payment or appoint a claims auditor to assume the Board's powers and duties for examining and approving claims. When a claims auditor is appointed to assume the Board's claims auditing duties, the claims auditor must report directly to the Board. An effective claims processing system ensures that every claim against the District contains enough supporting documentation to determine whether the goods or services purchased comply with statutory requirements and District policies and if the amounts represent actual and necessary District expenditures.

For example, when the purchasing policy requires District officials to solicit competitive quotes or bids prior to purchase, evidence that they obtained the required number of quotes or solicited bids should be attached to the claim and reviewed by the claims auditor prior to approval for payment. Similarly, if District officials make purchases from vendors awarded State, county or Boards of Cooperative Educational Services (BOCES) contracts, pricing documentation from the contracts should be attached to the claims and reviewed by the claims auditor prior to approval for payment.

The Board and District officials have not developed adequate written policies and procedures governing the claims processing function. In addition, the Board did not develop a comprehensive job description that outlines the claims auditor's expectations and requirements. The claims auditor compares invoices against the purchase orders only, which do not always provide adequate documentation about the vendors' prices. The claims auditor does not compare invoices against quotes, bids or government contracts, and there is no policy that requires that these documents be attached to the claims. We found no indication that the claims auditor documented any exceptions or concerns she may have found.

Competitive Pricing Documentation – We judgmentally selected 11 paid claims totaling \$106,912 to determine if the claims were properly supported and approved for payment by the claims auditor.<sup>1</sup> While all 11 claims were approved for payment by the claims auditor, seven claims totaling \$78,143 did not contain appropriate documentation, such as evidence that quotes or applicable State or county contract pricing information were obtained, to indicate that the prices charged by the vendors were correct. For example:

<sup>1</sup> See Appendix B, Audit Methodology and Standards, for further discussion of our sample selection process and the rationale for limiting our testing.

- The District paid \$6,211 for architectural services. The Business Administrator indicated that the District issued a request for proposals (RFP) for the architectural services, but she did not retain the proposals received in the files. Therefore, the claims auditor could not determine if the prices charged by the vendor matched the prices in the RFP.
- In July 2015, the purchasing agent approved a blanket purchase order for \$94,000 for diesel fuel from the County. In December 2015, the District paid the County \$3,304 for fuel.<sup>2</sup> District officials were unaware how the County charged the District for fuel. However, the claims auditor still approved the claim for payment. Without this information, the claims auditor could not have performed a thorough review of the claim to ensure that the District was properly charged by the County.

Requisitions and Purchase Orders – District purchases of goods and services generally require a requisition form approved by a supervisor and a purchase order approved by the purchasing agent. The requisition form should include whether District officials complied with purchasing guidelines (e.g., obtained two or more price quotes).<sup>3</sup> After the purchase order is filled, the accounts payable clerk assembles vendor invoices and other available supporting documentation<sup>4</sup> and submits them to the claims auditor for review. The claims auditor is then responsible for ensuring that the claims have adequate support and proper approvals and that the purchases are for legitimate District purposes. However, when adequate supporting documentation was not attached to a claim, the claims auditor did not request additional documentation from a District official or employee who made or approved the purchase.

All 11 claims we tested included an approved requisition form and an approved purchase order. However, five purchase orders and corresponding requisitions did not indicate if District officials had obtained the appropriate number of quotes or if the District purchased the goods or services from a vendor holding a State, county or BOCES contract. Two purchase orders indicated that the purchases were from a vendor that was awarded a State contract. By simply comparing

<sup>2</sup> The Business Administrator contacted County officials, who indicated the District is billed using an average monthly price per gallon. We did not confirm whether the price charged was accurate based on this information.

<sup>3</sup> According to District officials, these guidelines, which are printed on the requisition form, are the only written guidelines or procedures they have.

<sup>4</sup> Approved purchase requisition, purchase order, invoice and packing slip/receiving slip

invoices against the purchase orders and requisitions, which do not always provide adequate documentation about a vendor's prices, the claims auditor could not be sure that the District was paying the correct amount.

Credit Card Charges – We also reviewed three credit card payment transactions totaling \$6,793 that had 35 individual charges. While all three credit card payments were approved by the claims auditor, four of the 35 credit card charges totaling \$1,801 were not supported by invoices attached to the credit card statement. This included one charge for three individual hotel bills (\$1,631) and a membership to a popular online shopping website (\$99). District officials acknowledged that the charges were unsupported but indicated they were for legitimate District purposes.

Claims Auditor Duties – The Board and District officials have not developed written procedures to ensure that all parties are aware of their roles and responsibilities. The Board does not have an adequate job description to guide the claims auditor in her duties. The District's policy states the claims auditor shall certify that each claim listed on the warrant was audited and payment was authorized. The policy also requires the claims auditor to examine all claim forms with respect to the availability of funds within the appropriate codes and adequacy of evidence to support the District's expenditure. In addition, the policy states the claims auditor is supposed to report directly to the Board on the results of the claims audit. The claims auditor indicated that she attended training during which she received some guidelines to assist her with her claims auditing duties. She also stated that the prior claims auditor provided her with verbal instructions.

However, we found the claims auditor has limited communication with the Board, and the Board does not require her to provide it with detailed information regarding exceptions she may find during her reviews. If the claims auditor has any questions, she typically discusses it with the Business Administrator or Business Office staff prior to approving the claim. Therefore, the Board is not aware of any deficiencies in claims or if any problems are encountered. As a result, the claims audit process is not as effective as it could be.

When the Board does not provide proper oversight for the claims auditing process, there is an increased risk that errors or irregularities could occur and not be detected and corrected.

## **Recommendations**

The Board and District officials should:

1. Develop comprehensive written policies and procedures describing the claims audit process.

2. Develop a comprehensive job description for the claims auditor that explains expectations and includes specific guidance and requirements to ensure the claims auditor adequately performs her duties.

The claims auditor should:

3. Compare invoices against applicable quotes, bids and government contract information to ensure that the vendors' prices are correct.
4. Ensure that all claims, including credit card charges, are properly supported by adequate documentation prior to approval for payment.

## **APPENDIX A**

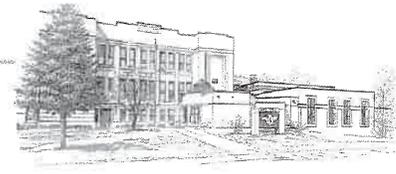
### **RESPONSE FROM DISTRICT OFFICIALS**

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



# Sherman Central School

127 Park Street • P.O. Box 950 • Sherman, NY 14781-0950  
phone (716) 761-6121 • fax (716) 761-6119  
www.sherman.wnyric.org



December 7, 2016

Jeffrey D. Mazula, Chief Examiner  
Office of the State Comptroller  
295 Main Street, Suite 1032  
Buffalo, NY 14203-2510

Dear Mr. Mazula,

On behalf of the Sherman Central School District, I would like to thank the Office of the State Comptroller for the assistance received during the review of Claims Processing.

The District is in agreement with the recommendations provided in this report. The Board of Education and Administration will review the recommendations of the Report of Examination for the period July 1, 2014 – September 9, 2016 and prepare a corrective action plan that will improve our current claims processing of Sherman Central School District.

After reviewing the recommendations, the District’s responses to the recommendations are as follows:

The District has developed comprehensive written policies and procedures describing the claims audit process. These have been looked over by the Board of Education and will be approved at the December meeting.

We are currently working on developing a comprehensive job description for the claims auditor that explains the expectations and that include specific guidance and requirements to ensure the claims auditor performs the duties adequately.

The Claims Auditor now is making sure all quotes or bids are attached with the correct information and prices.

The Claims Auditor is diligent on ensuring all claims have the proper supporting documentation prior to approving the payment.

Thank you for the opportunity to respond to the Report of Examination for the period of July 1, 2014 – September 9, 2016.

Sincerely,

Michael V. Ginestre  
Superintendent of Schools

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Mr. Jamie Berg • CSE Chair/Instructional Support Specialist

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Mrs. Tracie D. Smith • District Clerk

## APPENDIX B

### AUDIT METHODOLOGY AND STANDARDS

To achieve our audit objective and obtain valid evidence, we performed the following procedures:

- We interviewed District officials and staff to gain an understanding of the claims audit process.
- We reviewed and evaluated the District's claims audit and purchasing policies and procedures.
- We judgmentally selected 11 general fund claims totaling \$106,912 for testing. Our claims population consisted of 228 claims totaling approximately \$1.7 million, paid between July 1, 2014 and May 31, 2016. Using a risk-based approach, we limited our sample population to claims greater than \$1,999 and excluded claims for items deemed low risk such as certain payroll and benefit-related items (e.g., health insurance) and BOCES payments. We also excluded claims for credit cards and any electronic disbursements, which were tested separately. We selected our sample using a spreadsheet random number generator sampling function and initially selected 5 percent of the total population. Once we completed our initial testing, we discussed the results with District officials and determined that any further testing would result in the same outcome. Therefore, we concluded no further testing was necessary.
- Using the same spreadsheet sampling function, we selected three credit card payments for testing from 26 credit card claims totaling \$59,678 that were paid from July 1, 2014 through May 31, 2016.
- We tested claims to determine if they were properly supported with price quotes, bid documentation or applicable government contract pricing information, and other supporting documentation such as purchase orders, invoices and receiving slips, and were approved for payment by the claims auditor.

We conducted this performance audit in accordance with 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.

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