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Bethlehem Central School District:
2016/17 Claims Auditing



July 3, 2017

Board of Education
Bethlehem Central School District
700 Delaware Avenue
Delmar, NY 12054

We have completed the annual testing of controls for the Bethlehem Central School District. One of the requirements of the 2005 School Financial Oversight and Accountability legislation is ongoing testing and evaluation of the district's internal controls. Our engagement was designed to evaluate the adequacy of internal controls over the Claims Auditing processes to ensure they are appropriately designed and operating effectively and efficiently. And, to provide a report with recommended changes for strengthening controls and reducing identified risks.

The purpose of the audit was to review the internal controls that the district has in place to prevent errors, detect fraud and ensure that financial reporting is accurate and that the district assets are safeguarded.

RELIABILITY OF INFORMATION

In performing our engagement, we obtained a sample from the population of transactions to test the accuracy and reliability of information provided by district personnel.

As noted, the purpose of our engagement was to assist you in improving the process by which you monitor and manage the risks that face the district. Any findings and recommendations in the attached report are the responsibility of the district to implement, accept the risk as identified, or implement alternative controls that will mitigate the risk to a level that is acceptable by the district. Ultimately, it is your responsibility to assess the adequacy of your risk management system.

DISTRIBUTION OF THE REPORT

This report is intended solely for the information and use of the Board of Education and management of Bethlehem Central School District and should not be used for any other purpose.

We appreciate the opportunity to serve you and thank the individuals in your organization for their cooperation. Over time, it will be necessary to reassess your risks to ensure that they have not changed and to ensure that your risk management system is functioning properly. Through our ongoing involvement with you as a client and our knowledge of your district and its processes, we are in a unique position to assist you with that process. Please contact us at any time should you desire such services.

Sincerely,

Kenneth R. Ziobrowski

Kenneth R. Ziobrowski, CIA, CFE
Questar III BOCES

REPORT TO THE BOARD OF EDUCATION

ENTITY NAME	Bethlehem Central School District
REPORT DATE	April 22, 2017
PROCESS REVIEWED	Claims Auditing Process
PERSONNEL INTERVIEWED	Dana Burns, Claims Auditor Martha Shea, Purchasing Agent
SCOPE OF WORK	<ul style="list-style-type: none"> Reviewed the operating efficiency and effectiveness of the internal controls in place for the claims auditing process; and Tested a sample of 50 disbursements from July 1, 2016 through April 17, 2017 to determine that purchases were properly reviewed and authorized by the Claims Auditor.
SCOPE RESTRICTIONS	None
AUDIT OBJECTIVES	<ul style="list-style-type: none"> Evaluate the claims auditing processes and applicable internal controls to ensure operating effectiveness and efficiency; and Evaluate the districts claims auditing policies to ensure the claims auditor is in compliance with the policies.
KEY PROGRAM CONTROLS	<p>The District has created the following key program controls designed to meet the business obligations, provide accountability, and promote operational effectiveness & efficiencies:</p> <ul style="list-style-type: none"> The Board of Education (BOE) has developed board policies: 6650 Claims Auditor; 6650-E Certificate of Warrants; 6650-R Claims Auditor Regulations; 6700 Purchasing; 6700-E Purchasing Exhibit; and 6700-R Purchasing Regulation; and The claims are approved by the claims auditor regarding the general fund, special services fund, food services fund, and capital fund.
OBSERVATIONS AND RECOMMENDATIONS	<p><u>Observation 1:</u> During the annual risk assessment, we noted that the Claims Auditor does not verify if purchases made for Food Service agree with the awarded bid documents. The claims auditor currently relies on the Director of Food Services and her Assistant to verify the bid prices before reviewing the claims. In addition, we noted that the Claims Auditor is not verifying the appropriate prices per the applicable bid documentation and/or contracts.</p> <p>According to Board Policy 6650: Claims Auditor, “the auditing process should determine that the submitted voucher is in proper form, mathematically correct, does not include previously paid charges, and is in agreement with the purchase order or contract upon which it is based.”</p> <p><i>Recommendation: The Claims Auditor should refer to the food service awarded bid documentation to ensure the District is being billed appropriately. In addition, the claims auditor should be verifying the billable prices per the applicable bid documentation and/or contracts to ensure the District is billed appropriately.</i></p> <p><u>Observation 2:</u> During our review of claims and disbursements, we noted the following issues:</p>

- Two instances where the claim was paid without having sufficient supporting documentation. The Claims Auditor did not review the applicable vendor bid agreement to ensure the billed amounts complied with the bid agreement. In one of these instances, the bid agreement listed hourly rates and what type of equipment was used to perform the service (Advantage Tree Services totaling to an amount of \$8,800). For example; the use of a bucket truck (55' to 65') with a two-man crew is \$115.00 per hour. When reviewing the invoice for this payment, it did not indicate the number of hours associated with the job and what type of equipment was used. The invoice was vague and was not itemized as specified in the bid agreement. For example; the invoice stated items such as the removal of (1) XL White Pine at front of building by corner of fence w/stump & debris at the Middle School. Therefore, we were unable to determine if the District was billed appropriately.
- Four instances where the incorrect NYS contract reference number was recorded on the purchase order.
- Two instances where initially the District did not attach the correct number of written quotes that is required by Purchasing Exhibit 6700-E. For example; the District purchased a "Hunter Table Top Tire Changer" for \$8,231.74 but only one written quote was attached to the purchase order when reviewed by the claims auditor. The required three quotes were in the possession of the purchasing agent. According to Purchasing Exhibit 6700-E, Purchase Contracts and Public Work Contracts, purchases between \$5,000 and \$19,999 are required to have three written quotes. The District provided additional quotes upon request, but we noted these quotes were not reviewed by the claims auditor prior to processing for payment.

Recommendation: The Claims Auditor should ensure supporting documentation is included to justify the claimed amounts. The Claims Auditor should also verify if the correct NYS contract reference number is being properly recorded on the purchase orders.

In addition, the Claims Auditor should verify if purchases being made have the correct number of attached written quotes required by Purchasing Exhibit 6700-E. This would ensure that the District is receiving the best price for larger purchases made and that the applicable department is complying with Purchasing Exhibit 6700-E. If additional quotes cannot be provided due to specific circumstances, the District should document the reason for not obtaining the correct number of quotes and attach it to the purchase order. This information should be documented not only to maintain sufficient recordkeeping, but it is also important that the Claims Auditor is aware of the circumstances before approving the payment.

Observation 3: After reviewing the Districts Board Policies, we noted that Board Policy 6650: Claims Auditor has not been revised since October of 2006. In addition, Claims Auditor Regulation 6650-R has not been revised since October of 2005. The Board Policy and Regulation should reflect the most current claims auditing practices.

Recommendations: The District should revisit Board Policy 6650; Regulation 6650-R and make necessary revisions regarding any updated

	<i>information about the required steps the Claims Auditor should follow. The District should consider incorporating the required steps from the OSC claims auditor instructions and revise the policy to address the issues noted above.</i>
SUBMITTED BY:	David Leather, Internal Auditor
DATED	April 22, 2017

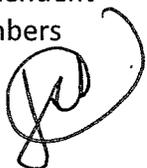
Judith E. Kehoe
Chief Business and Financial Officer
jkehoe@bcsd.neric.org



Bethlehem Central School District

<http://bethlehemschools.org>

TO: Jody Monroe, Superintendent
Audit Committee Members

FROM: Judith E. Kehoe, CBFO 

COPY: Phyllis L. Albano, Treasurer/Business Administrator

DATE: June 7, 2017

SUBJECT: Response to Internal Audit Report – Claims Auditing

Recommendation #1 and #2: The Claims Auditor should refer to bid documentation to ensure the District is being billed appropriately. The Claims Auditor should ensure supporting documentation is included to justify the claimed amounts. The Claims Auditor should also verify if the correct NYS contract reference number is being properly recorded on the purchase orders. In addition, the Claim Auditor should verify if purchases being made have the correct number of attached written quotes required by the District's Purchasing Policy and Regulation.

Response: The District will provide the Claims Auditor with the OSC publication entitled Improving the Effectiveness of Your Claims Auditing Process, which provides information about the criteria for auditing claims, red flags, payments allowed in advance of audit, as well as the importance of the claims audit function.

We will also schedule refresher training in the 2017/18 school year.

*Bethlehem Central School District
Business Office
700 Delaware Avenue
Delmar, NY 12054
518-439-7481 (p)
518-478-0650 (f)*

All BOE policies and regulations are on the District's website; we will remind the Claims Auditor that she should be familiar with and ensure claim packets are in compliance with such policies and regulations.

Recommendation #3: The Board should revisit Board Policy 6650 and Regulation 6650-R. and make necessary revisions regarding any updated information about the required steps the Claims Auditor should follow. The District should consider incorporating the required steps from the OSC claims auditor instructions and revise the policy to address the issues noted in the report.

Response: The Claims Auditor Policy (6650) and Regulation will be reviewed, and revised as necessary, by the policy committee during the 2017/18 school year.