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**Bethlehem Central School District:
Fiscal Year 2018/19 Disposition of Assets & Equipment Audit**

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April 17, 2019

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 Disposition of Assets and Equipment 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,

Mark Beaudette

Mark Beaudette, CPA
Questar III BOCES

ENTITY NAME	Bethlehem Central School District
REPORT DATE	October 26, 2018
PROCESS REVIEWED	District Owned Assets & Equipment Disposition Process
PERSONNEL INTERVIEWED	Phyllis L. Albano, District Treasurer / Business Administrator John Biszick, Assistant Director of Transportation John Hazelton, Assistant Transportation Supervisor Gregg D. Nolte, Director of Facilities & Operations Bob Court, Assistant Director of Facilities & Operations Elisa Peters, Secretary of Operations & Maintenance Ray Nardelli, Director of Information Technology Sherri Fitzpatrick, SESS department Additional staff throughout evaluating the process
SCOPE OF WORK	<p>Evaluated and reviewed the asset disposition process regarding Transportation, O&M, Fleet Vehicles, Information Technology, SESS, and Athletic Department from July 1, 2015 to October 23, 2018. Obtained full access to the Public Surplus database and judgmentally selected a sample of 35 from a total population of 265 items classified as sold:</p> <ul style="list-style-type: none"> • From a population of 79 transactions from the Operations & Maintenance department, we selected 15 transactions classified as sold through Public Surplus. • From a population of 66 transactions from the Transportation department, we selected 10 transactions classified as sold through Public Surplus. • From a population of 120 transactions from the Information Technology department, we selected 10 transactions classified as sold through Public Surplus. • Evaluated and reviewed the process for disposing of scrap metal and the District's receipt of revenue. • Evaluated and reviewed the process for safeguarding the disposition of all assets and equipment throughout the District.
SCOPE RESTRICTIONS	No Restrictions Noted
AUDIT OBJECTIVES	<ul style="list-style-type: none"> • Evaluate the asset and equipment disposition process and applicable internal controls to ensure they are operating effectively and efficiently; • Evaluate the following aspects of the Public Surplus database: time permitted to auction assets, individuals involved in the bidding process, and if beginning bid prices are reasonable. • Ensure District asset disposals are properly approved and reported to the Business Office. • Evaluate the scrap metal disposition process to ensure the District is properly safeguarding prior to receiving revenue; and,

	<ul style="list-style-type: none"> • Ensure that money received from the sale of scrap metal was properly accounted for.
<p>KEY PROGRAM CONTROLS</p>	<p>The District has created the following key program controls designed to meet business obligations, provide accountability, and promote operational effectiveness & efficiency:</p> <ul style="list-style-type: none"> • The Board of Education (BOE) has adopted board policy 6900: Disposal of District Property, to provide guidance over the asset disposal process. • The District uses Public Surplus, which is a government surplus auction system, to market its saleable surplus items. • The District safeguards all disposed assets in locked areas and limits access to each applicable department. • The District has installed surveillance cameras throughout the District that provides additional oversight in each building.
<p>BEST PRACTICES</p>	<p>Used Bus Sales During 2018:</p> <p>The Transportation Department usually auctions buses for approximately 14 days. The Assistant Director of Transportation has auctioned vehicles by listing them at a higher starting price than in prior years. If the Transportation Department does not meet their target price, they will re-list the vehicle to attract a higher bidder. During fiscal year 2018/2019, the Transportation Department auctioned 12 buses for an average resale price of approximately \$9,017 each. The transportation Department anticipated \$75,000 from used bus sales but recognized \$108,200 in revenue for the year fiscal year 2018/2019. This resulted in a \$33,200 increase in revenue over what was anticipated from prior year trends.</p>
<p>ADDITIONAL INFORMATION</p>	<p>Overall District Owned Asset Accountability:</p> <p>We noted that there has been some improvement in the District's asset accountability from the prior fixed asset audit. For example, the transportation garage is using Microsoft Excel for all tools, parts, and supplies. The Operations & Maintenance department has shown improvement in accounting for assets as well. Staff have documented more information about their assets into their databases than what was recorded in the past. In addition, we noted the Information Technology department is in the progress of updating their inventory database. We noted that the Information Technology department has considered transitioning to ServiceNow. ServiceNow offers features such as: utilizing a mobile application to track assets, helpdesk ticketing system, and provides more efficient accountability over the information technology inventory.</p>
<p>OBSERVATIONS AND RECOMMENDATIONS</p>	<p><u>Observation 1:</u> After interviewing staff and reviewing auction records during the time period of July 1, 2015 through October 26, 2018, we identified the following issues:</p> <ul style="list-style-type: none"> • Fifteen transactions where the Assistant Director of Buildings & Grounds' spouse purchased items through Public Surplus. We identified that the individual purchased items, such as, a Frigidaire Dishwasher for \$10.50, Frigidaire Counter Top Stove for \$10.50, GE Profile Stove for \$152.50, and a GE Profile Dishwasher for \$102.50. <p>After a further evaluation of the Frigidaire Dishwasher and Frigidaire</p>

Counter Top Stove purchased for \$10.50 each, we noted the condition and age did not appear to be reasonable when compared to one would expect to be as fair market value. In addition, the bid history indicated that there were only two bidders and the bid offering was listed for only seven days. The first bidder made an offer for \$10.00. The second bidder, whom is the employees' spouse was awarded the second bid for \$10.50 which was only \$0.50 more.

The Assistant Director of Buildings & Grounds, who is also the system administrator for Public Surplus, authorized these purchases for his spouse. In addition, we noted there was not a designated time frame for these items to be auctioned on Public Surplus. The number of days on auction varied between four to ten days. Additionally, the Chief Business and Financial Officer did not approve these transactions as required by Board Policy 6900 Disposal of District Property.

- One transaction where an Operations & Maintenance employee purchased a Shopsmith Model 510 for \$208.87 without obtaining written approval from the Chief Business and Financial Officer. In addition, we noted that the public auction receipt stated the item was purchased for \$246.47 which did not reconcile to the public surplus report. As a result, the District recorded \$37.60 less in revenue per the public surplus database. We also noted that the same individual had user access to Public Surplus which could be perceived as a possible conflict of interest.

Board Policy 6900 Disposal of District Property states *"If an employee in the purchasing or sale function wishes to bid on the equipment and/or supplies, written authorization from the chief business and financial officer is required"*.

Recommendation: According to Board Policy 6900, the chief Business and Financial Officer should review, approve, and sign off on all transactions that are employee related. The District should also consider re-evaluating and revising Board Policy 6900, to provide additional guidance regarding employee and/or immediate family members purchasing items from Public Surplus. The District should also establish a specific timeframe for Public Surplus, implement a process for determining the best value, and provide additional oversight over the system administrator of public surplus.

Observation 2: After reviewing all auctioned sales of assets and equipment from 7/1/2017 through 9/30/2018, we were unable to reconcile revenues received by the Business Office. Initially, we identified \$66,258 that the District did not account for at the business office. According to the financial application, the District had reported revenue in the amount of \$102,003.25 for the sales of buses and equipment. According to Public Surplus, the District should have received \$168,261.25 for items sold at auction. Subsequent to the audit fieldwork, the Business Office provided additional information to support the revenues earned in the amount of \$67,633 on October 2, 2018 which was later posted on October 31, 2018. After receiving the additional information, the District reported \$1,375 more in revenues than what was recorded in Public Surplus.

Recommendation: The District should ensure that all revenues in Public Surplus have been properly and timely recognized. The Business Office should obtain access to Public Surplus to ensure that all transactions are reasonable and have been posted to the financial system. The Business Office should also assign an individual to perform a reconciliation between the auction software

	<p><i>and the financial application</i></p> <p><u>Observation 3:</u> After reviewing the Public Surplus auction receipts throughout the departments and interviewing staff, we identified the following issues:</p> <ul style="list-style-type: none"> • We noted that the Information Technology department did not maintain auction receipts to support transactions on public surplus. The Information Technology department is not following best practices by maintaining supporting documentation for items being auctioned on Public Surplus. As a result, internal audit was unable to verify if the auction receipts properly supported transactions listed in Public Surplus. • During our review of auction receipts in the Operations & Maintenance department, we noted several instances where the buyer and/or the seller did not sign off on the auction receipt. In addition, we were unable to review one auction receipt due to being unavailable for audit. As a result, the Operations & Maintenance staff are not retaining all copies of auction receipts to support each transaction listed in Public Surplus. <p><i>Recommendation: The District should instruct the IT department to maintain a copy of auction receipts to support all Public Surplus transactions. This would provide a better audit trail by determining who is releasing items for sale and who is receiving the item for pickup. In addition, all auction receipts should be properly approved and signed by the buyer and seller.</i></p> <p><u>Observation 4:</u> After interviewing each department, we noted that staff do not use asset transfer/disposal forms when items are moved from one facility to another or designated for disposal. Additionally, some of the staff stated that the District's fixed asset database will be inaccurate and incomplete. The District has not created and implemented an asset transfer/disposal form. According to OSC guidelines, an asset transfer/disposition form is suggested as a best practice for moving fixed assets. The form, when properly completed, would allow the asset coordinator to update the database with current and accurate information. This was also identified in the prior risk assessment and fixed asset audit during fiscal year 2016/17. The District has not adequately addressed this area of concern.</p> <p><i>Recommendation: Each time assets are moved from one location; the responsible department should complete an asset transfer form to be sent to the asset coordinator for updating the database. The form should include the asset tag #, description, from location, new location, and date of transfer or disposal. This would also ensure that the District is maintaining proper supporting documentation when assets have been moved or have been disposed of.</i></p>
<p>SUBMITTED BY:</p>	<p>David Leather, Internal Auditor</p>
<p>DATED</p>	<p>10/26/2018</p>

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: January 4, 2018

SUBJECT: Response to Internal Audit Report – Dispositions of Assets

Recommendation #1: According to Board Policy 6900, the Chief Business and Financial Officer should review, approve, and sign off on all transactions that are employee related. The District should also consider re-evaluating and revising Board Policy 6900 to provide additional guidance regarding employee and/or immediate family members purchasing items from Public Surplus. The District should also establish a specific timeframe for Public Surplus, implement a process for determining the best value, and provide additional oversight over the system administrator of Public Surplus.

Response: The CBFO will approve all transactions of key employees involved in bidding on equipment and/or supplies. The CBFO will also schedule a meeting to review the BOE policy with staff, to update guidelines (including timeframes), and review expectations for staff.

Recommendation #2: The District should ensure that all revenues in Public Surplus have been properly and timely recognized. The Business Office should obtain access to Public Surplus to ensure that all transactions are reasonable and have been posted to the financial system. The Business Office should

also assign an individual to perform a reconciliation between the auction software and the financial application.

Response: The District does and will continue to ensure that all revenues from Public Surplus are properly recognized in a timely manner. When Public Surplus issues an ACH payment, an email notification is provided to the District. At this time, the District's accountant logs onto the Public Surplus website and generates a Payment Collection Report for the appropriate period. The proceeds of sales in one month are generally paid to us at the beginning of the second month; for example, payments collected for August sales are received by us in the beginning of October. The accountant matches the amounts shown on this report to the total that is deposited in our bank account, and performs a reconciliation to ensure the revenues are accurate. The accountant then records the sales revenue and the associated sales tax collected, by journal entry, in the month that the cash is received; one exception is at year end, when she records a receivable for sales that have been completed, but the cash has not yet been received.

Attached is a Payment Collection Report, for the period of July 1, 2017 through September 2018, showing payments totaling \$169,636.25. Also, attached is the Revenue Account Transactions Report showing total revenues of the sale of equipment and buses totaling \$169,636.25. These reports show that the revenues have been properly and timely recorded, and reconciled.

Recommendation #3 The District should instruct the IT Department to maintain a copy of auction receipts to support all Public Surplus transactions. This would provide a better audit trail by determining who is releasing items for sale and who is receiving the item for pickup. In addition, all auction receipts should be properly approved and signed by the buyer and seller.

Response: The IT Department has updated its asset disposal procedures to include the collection and filing of both auction and recycle receipts. The procedures now include a requirement to have the customer sign the receipt.

Recommendation #4: Each time assets are moved from one location; the responsible department should complete an asset transfer form to be sent to the asset coordinator for updating the database. The form should include the asset tag #, description, from location, new location, and the date of

transfer or disposal. This would also ensure that the District is maintaining proper supporting documentation when assets have been moved or have been disposed of.

Response: Asset management is decentralized. There is no position of Asset Coordinator. The Business Office maintains the list of capitalized and depreciable assets for financial reporting purposes, as well as for insurance records. With the exception of technology assets, asset transfers between buildings occur infrequently; therefore, the District has opted not to use a formal transfer form. However, the IT Department is planning on implementing the ServiceNow Inventory system by August 2019. ServiceNow has robust inventory management features that will give the IT Department the ability to document asset locations, timestamp asset transfers, and document disposals. As to dispositions, we will review procedures with staff as per other recommendations.