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Bethlehem Central School District

<http://bethlehemschools.org>



April 5, 2017

Mr. Jeffrey Leonard, Chief Examiner
NYS Office of the State Comptroller
Division of Local Government and School Accountability
Glens Falls Regional Office
One Broad Street Plaza
Glens Falls, NY 12801

RE: Credit Card Audit 2017M-41

The Bethlehem Central School District acknowledges the receipt of the draft Report of Examination of Credit Cards issued by the Office of the State Comptroller (OSC).

The District respects the work performed by OSC and accepts that their audit findings were factual as to the timing of the claims auditor review and the lack of a separate approval for the debit to our account. Our response, which serves as the official response as well as the corrective action plan, to the two audit recommendations are addressed below.

The first recommendation in the draft report states that the claims auditor should ensure all claims are audited prior to payment. We agree and have changed the time frame for the electronic debit from the first of the month to the fifteenth of the month; this now provides sufficient time for the claims auditor to review and audit each credit card claim prior to the payment of the credit card statement.

The second recommendation states that the Board should immediately discontinue allowing the credit card company access to its bank account to electronically withdraw cash for payment on the credit card account. Also, any electronic payment to third parties should be authorized and initiated by the Treasurer. The District disagrees with the recommendation and does not concur with the OSC conclusion that the district's cash is at risk. While we recognize there are risks associated with any electronic payments, we have considered those risks and have controls in place to minimize the potential risks. This is supported by the fact that 100% of credit card claims were audited and there

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were no audit exceptions relating to claims being paid without adequate documentation or for other than District purposes.

To provide the readers of this report with perspective, below is additional information about the establishment and use of District credit cards.

The district established the use of credit cards for certain purchases in 2009. The district knew that they would not see the efficiencies that are typically derived from credit card programs because of the requirements for pre-approval of purchases (evidenced by requisitions and approved purchase orders), but there were a growing number of necessary purchases in which vendors simply would not accept a government PO, particularly for web-based technology acquisitions, or conference-related travel costs. Asking employees to advance the funds was not an acceptable business solution.

Valuing strong internal controls to safeguard district resources, the district established a number of key control elements:

- Cards could only be issued to board-authorized employees who were deemed to be in responsible positions and who had a business need to purchase certain items with the credit card. Of our 870 employees, only eight (8) have a credit card. These employees have typically been entrusted to manage significant greater district resources.
- An approved PO was required prior to making a purchase. This was to make sure the district's purchasing policy had been adhered to, and to confirm that funds were available in the budget.
- The credit cards had restrictions that also offered safeguards: either a \$2,000 or a \$5,000 credit limit per card, daily transaction limits of five (5) transactions and monthly limits of thirty (30). Additionally, we blocked (through use of merchant category codes) businesses that offered services that might be prone to personal use.
- In the event of a disputed charge, the district can protest the charge and receive a credit.

All supporting invoices are attached to the monthly statement, and are initialed by the purchaser. In addition, before going to the claims auditor, both the Chief Business and Financial Officer and the Superintendent review and initial the claims packet.

Based on the training and expectations provided to card holders, and the scrutiny their transactions get from senior management staff, accountability is achieved. In the seven years of credit card use, there have been no findings of misuse by the claims auditor, the internal or external auditors, or even OSC.

The credit card is issued by the district's primary banking institution. As such, outstanding balances are satisfied with a debit into the district's designated bank account, the next business day following release of the month end credit card statements. This is a common and accepted business practice for satisfaction of credit card obligations. Given this timing, it was not practicable to have the claims auditor audit these packets prior to payment.

We do have the claims auditor audit the disbursements, even though it is after the fact. However, with the recent change in the timing of the debit to our account, from the first to the fifteenth of the month, there is now sufficient time for the credit card claims to be audited prior to payment.

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We do not have the Treasurer provide a separate authorization to the bank to authorize the debit to our account. These transactions have numerous compensating controls, which we believe have been shown to effectively protect district resources.

Accordingly, while we respect the work performed by OSC, and accept that their findings are factual as to the timing of the claims auditor review and the lack of a separate approval for the debit to our account, we do not concur with the OSC conclusion that the district's cash is at risk. Therefore, with the concurrence of the district's Audit Committee and Board of Education, we will maintain the existing internal controls and procedures over our use of credit cards.

We thank [REDACTED] and [REDACTED] for their professionalism during the conduct of their 6-week audit, and are pleased that the audit has largely affirmed the prudent fiscal management of the district.

Sincerely,

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