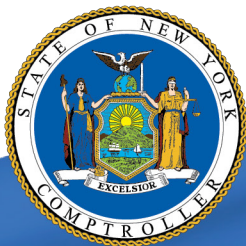


Bethlehem Central School District

Credit Cards

JUNE 2017



OFFICE OF THE NEW YORK STATE COMPTROLLER
Thomas P. DiNapoli, State Comptroller

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Report Highlights

Bethlehem Central School District

Audit Objective

Determine if District credit card claims were adequately supported, audited prior to payment and paid in a secure and timely manner.

Key Findings

- The claims auditor did not audit all credit card claims prior to payment.
- The credit card company directly withdraws monthly payments from the District bank account without the Treasurer's authorization.

Key Recommendations

- The claims auditor should audit all credit card claims prior to payment.
- The Board should not allow third-party vendors to directly debit funds from District bank accounts.

Except as specified in Appendix A, District officials generally agreed with our recommendations and indicated they planned to take corrective action. Appendix B includes our comment on issues raised in the District's response letter.

Background

The Bethlehem Central School District (District) is located in the Towns of Bethlehem and New Scotland in Albany County. The Board of Education (Board) is responsible for the District's day-to-day management. The District Treasurer (Treasurer) is the custodian of the District's moneys. The Board appointed a claims auditor to audit claims prior to disbursement.

Quick Facts

870	Employees
4,600	Enrollment
\$96.5 million	2016-17 Budgeted Appropriations

Audit Period

July 1, 2015 through November 30, 2016

Credit Cards

How Should a District Process Credit Card Claims?

The audit and approval of claims is one of the most critical elements of a District's internal control system over expenditures. Education Law requires the Board to audit all claims before they are paid, or to appoint a claims auditor to assume the Board's powers and duties to examine and approve or disapprove claims. The audit of claims must determine whether the claims are properly itemized and supported and whether the District has actually received the goods or services described in each claim. Credit card claims must be included in this process.

Education Law allows for the payment of certain items prior to Board audit.¹ Any claims paid prior to audit should be submitted to the Board, or claims auditor, for review and approval after payment has been made.

Without a thorough and deliberate audit of claims prior to payment, there is no assurance that District purchases are in accordance with applicable laws and policies that are designed to protect District money. The claims audit procedure is often the last opportunity for District officials to identify improper or unauthorized transactions.

Credit Card Claims Were Not Audited Prior to Payment and the Vendor Could Electronically Withdraw Payments

The Board delegated its claims auditing responsibilities by appointing a claims auditor.

The District has three credit card accounts, two home improvement store accounts and one credit card account issued by a bank. We reviewed all 128 credit card claims from these three accounts during our audit period. We found the claims auditor did not audit 83 claims totaling approximately \$83,000 related to charges on the bank credit card account prior to the payments being made. However, the claims auditor did audit all 45 claims totaling approximately \$55,000 for purchases from the home improvement store accounts.

The Chief Business and Finance Officer and the Treasurer indicated the bank credit card claims were not audited prior to payment because the credit card account was set up for an automatic monthly electronic payment from the District's bank account. After the credit card payment withdrawal is made, the Chief Business and Finance Officer's secretary compiles all of the credit card receipts and verifies that the charges agree to the related purchase orders and invoice. The Treasurer then performs a reconciliation of the credit card statement

The claims auditor did not audit 83 claims totaling approximately \$83,000.

¹ Claims authorized to be paid prior to audit include claims for public utility services, postage, freight and express charges.

to the claims and this documentation, along with the support for the purchases, is submitted to the claims auditor for audit.

The Treasurer informed us that, on or about the first of each month, the District's credit card vendor automatically electronically debits the payments from the District's general fund bank account. There are no provisions in law allowing a third party to directly access District funds. Instead, all electronic payments must be initiated by the Treasurer. Furthermore, there was no direct approval from the treasurer or any other District official for these payments.

We also reviewed the 128 claims to ensure they were adequately supported and the goods or services acquired were for proper District purposes. We found the claims were adequately supported and for proper District purposes and that the purchases were reviewed for by District officials but not until after the payments were already deducted from the bank account.

The failure to audit all credit card claims prior to payment increases the risk the District may pay claims not adequately supported and for goods or services that are not for proper District purposes. Furthermore, allowing third parties to directly access District bank accounts and withdraw District funds places the District's cash at risk.

What Do We Recommend?

1. The claims auditor should ensure all claims are audited prior to payment.
2. 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. Any electronic payments to third parties should be authorized and initiated by the Treasurer.

Appendix A: Response From District Officials

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Bethlehem Central School District

<http://bethlehemschools.org>



April 5, 2017

Mr. Jeffrey Leonard, Chief Examiner
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Glens Falls Regional Office
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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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See
Note 1
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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.

Jody Monroe
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Bethlehem Central School District

<http://bethlehemschools.org>



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,

Jody Monroe
Superintendent of Schools

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Appendix B: OSC Comment on the District's Response

Note 1

Cash is at risk any time a third party is allowed to access the District's bank account. The custody and disbursement of District funds is the Treasurer's responsibility. The District cannot delegate this duty or assign this responsibility to its bank.

Appendix C: Audit Methodology and Standards

We conducted this audit 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. To achieve the audit objective and obtain valid audit evidence, we performed the following audit procedures:

- We reviewed the District's policies and procedures relevant to credit card purchases and claims auditing. We interviewed District officials to determine what processes were in place to gain an understanding of the District's use of credit cards.
- We reviewed 100 percent of the credit card claims for the District's three credit card vendors for the audit period to determine if there was a purchase order prior to the charge, the receipt agreed to the purchase order, the claim was audited prior to payment, the Treasurer authorized the payment and it agreed to the invoice and the charge was a proper District expenditure.

We conducted this performance audit in accordance with GAGAS, generally accepted government auditing standards. 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.

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, pursuant to Section 35 of General Municipal Law, Section 2116-1(3)(c) of New York State Education Law and Section 170.12 of the Regulations of the Commissioner of Education. To the extent practicable, implementation of the CAP must begin by the end of the 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. We encourage the Board to make the CAP available for public review in the Clerk's office.

Appendix D: Resources and Services

Regional Office Directory

www.osc.state.ny.us/localgov/regional_directory.pdf

Cost-Saving Ideas – Resources, advice and assistance on cost-saving ideas

www.osc.state.ny.us/localgov/costsavings/index.htm

Fiscal Stress Monitoring – Resources for local government officials experiencing fiscal problems

www.osc.state.ny.us/localgov/fiscalmonitoring/index.htm

Local Government Management Guides – Series of publications that include technical information and suggested practices for local government management

www.osc.state.ny.us/localgov/pubs/listacctg.htm#lmgm

Planning and Budgeting Guides – Resources for developing multiyear financial, capital, strategic and other plans

www.osc.state.ny.us/localgov/planbudget/index.htm

Protecting Sensitive Data and Other Local Government Assets – A non-technical cybersecurity guide for local government leaders

www.osc.state.ny.us/localgov/lgli/pdf/cybersecurityguide.pdf

Required Reporting – Information and resources for reports and forms that are filed with the Office of the State Comptroller

www.osc.state.ny.us/localgov/finreporting/index.htm

Research Reports / Publications – Reports on major policy issues facing local governments and State policy-makers

www.osc.state.ny.us/localgov/researchpubs/index.htm

Training – Resources for local government officials on in-person and online training opportunities on a wide range of topics

www.osc.state.ny.us/localgov/academy/index.htm

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