



# Andes Central School District Internal Controls Over Capital Assets and Purchasing

Report of Examination

Period Covered:

July 1, 2004 - December 21, 2005

2006M-75



# Table of Contents

	<b>Page</b>
<b>AUTHORITY LETTER</b>	3
<b>INTRODUCTION</b>	5
Background	5
Objective	5
Scope and Methodology	5
Comments of District Officials and Corrective Action	6
<b>CAPITAL ASSETS</b>	7
Recommendation	9
<b>DEFICIENCIES IN CONTROLS OVER PURCHASING</b>	10
Incompatible Duties	10
Lack of Compliance with Procurement Policy	11
Recommendation	12
<b>APPENDIX A</b> Response From District Officials	13
<b>APPENDIX B</b> Audit Methodology and Standards	16
<b>APPENDIX C</b> How to Obtain Additional Copies of the Report	18
<b>APPENDIX D</b> Local Regional Office Listing	19

# State of New York Office of the State Comptroller

---

---

## Division of Local Government Services and Economic Development

August 2006

Dear School District Officials:

One of the Office of the State Comptroller's top priorities is to identify areas where school districts can improve their operations and provide guidance and services that will assist school district officials in making those improvements. Further objectives are to develop and promote short-term and long-term strategies to enable and encourage school district officials to reduce costs, improve service delivery and to account for and protect their school districts' assets.

The reports issued by this Office are an important component in accomplishing these objectives. These reports are expected to be a resource and are designed to identify current and emerging fiscally related problems and provide recommendations for improvement. The following is our report on the Andes Central School District — Internal Controls over Capital Assets and Purchasing.

This audit was conducted pursuant to the State Comptroller's authority as set forth in Article V, Section 1 of the State Constitution and Article 3 of the General Municipal Law. The report contains opportunities for improvement for consideration by school district officials.

If we can be of assistance to you or if you have any questions concerning this report, please feel free to contact the local regional office for your county listed at the back of this report.

Respectfully submitted,

*Office of the State Comptroller  
Division of Local Government Services  
and Economic Development*

# Introduction

## Background

The Andes Central School District (District) is located in the Towns of Andes, Bovina, Delhi, Hamden and Middletown in Delaware County. The District is governed by the Board of Education (Board) which comprises 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 (Superintendent) is the chief executive officer of the District and is responsible, along with other administrative staff, for the day-to-day management of the District under the direction of the Board.

There is one school in operation within the District, with approximately 134 students and 51 employees. The District's budgeted expenditures for the 2005-06 fiscal year are approximately \$3.2 million, funded primarily with State aid, real property taxes and grants.

District officials contract with a private company to provide updated capital assets listing reports in July each year, as well as perform periodic physical inventories to help ensure their accuracy. As of June 30, 2005, the District reported approximately \$2 million in capital assets of which approximately \$641,000 was for land, buildings, and construction work in progress and \$1.4 million for furniture and equipment. The last physical inventory was performed by the private company on January 27, 2003.

During our audit period and up until December 2005 the District Treasurer (Treasurer) was the Internal Claims Auditor.

## Objective

The objective of our audit was to determine if District officials were properly safeguarding their financial resources. Our audit addressed the following related question:

- Are internal controls over capital assets and purchasing appropriately designed and operating effectively to adequately safeguard district assets?

## Scope and Methodology

Our overall goal was to assess the adequacy of the internal controls put in place by officials to safeguard District assets. To accomplish this, we performed an initial assessment of the internal controls so that we could design our audit to focus on those areas most at risk. Our initial assessment included evaluations of the following areas: cash receipts and disbursements, purchasing, payroll and personal

services, and capital assets and consumable inventories. Based on that evaluation, we determined that controls appeared to be adequate and limited risk existed in most of the financial areas we reviewed. We did determine that risk existed in the capital assets and purchasing areas and therefore, we examined internal controls in those areas for the period July 1, 2004 to December 21, 2005.

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.

**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 the General Municipal Law, the Board should prepare a plan of action that addresses the recommendations in this report and forward the plan to our office within 90 days. For guidance in preparing the plan of action, the Board may refer to applicable sections in the publication issued by the Office of the State Comptroller entitled *Local Government Management Guide*. We encourage the Board to make this plan available for public review in the District Clerk's office.

## Capital Assets

Capital assets are those physical assets that have a useful life of more than one year and include such things as land, buildings and improvements, furnishings, vehicles and other equipment such as computers, copiers, etc. District officials must ensure that capital assets are safeguarded from loss, that their value is maintained and that they are used effectively.

As of June 30, 2005, the District reported approximately \$2 million in capital assets of which approximately \$641,000 related to land, buildings, and construction work in progress and \$1.4 million related to furniture and equipment.

District officials contracted with a private company to provide updated property listing reports in July each year, as well as conduct periodic physical inventories of District owned capital assets. The Treasurer is responsible for maintaining inventory records at the District. She reviews District invoices every six months and prepares an inventory change report for acquired assets which she sends to the BOCES Accounts Payable Clerk and the private company to enable them to update the property listing reports. The inventory records include descriptions of the assets, manufacturers, room locations, quantities, acquisition costs, accumulated depreciation, and usually serial numbers.

We examined the District's internal control policies and practices relating to capital assets and found them to be weak, and even non-existent in certain instances.

A good system of internal controls over capital assets provides that appropriate staff record all necessary information in capital asset records when acquired and disposed of, and affix unique identifying numbers to them where feasible. In addition, a good internal controls system provides for staff to regularly perform periodic physical inventories to verify that the capital assets viewed are properly recorded in the detail asset records. These procedures would help to ensure the accuracy and effectiveness of the system in safeguarding and accounting for those assets.

The Board has not established a capital assets policy outlining procedures for staff to follow when acquiring and disposing of District assets. District personnel have not affixed unique identification

numbers to any of the District's capital assets nor have officials requested the company they contract with do so even though they provide this service. Also, there is no process in place to notify the Treasurer when assets are disposed of. Finally, District personnel have not performed, nor have requested the company they contract with to perform, a physical inventory of District capital assets since January 27, 2003.

As part of our audit procedures, we attempted to physically view 18 capital assets at the locations indicated in the District's detailed property records and an additional 12 capital assets (computers) recently purchased during the current fiscal year, for a total sample size of 30 capital assets. The following are the results of our audit procedures:

- We could not locate ten items recorded in the detail property record (33 percent of all items tested) which consisted of computer equipment and a copier purchased between 1960 and 2001 and costing about \$60,000. When we asked district staff about these, they told us that this equipment had been disposed of, but the inventory records had not been updated. Also, we found that one of the items was a leased copier costing about \$30,000, which should not have been listed in the District's inventory records as a District owned asset in the first place.
- We could not initially find two of the 12 recently purchased computers costing about \$3,000 (7 percent of all items tested) because the inventory records did not indicate where they were located. District staff was able to eventually locate them for us.

We also attempted to verify that ten additional capital assets located throughout the District, as well as the 12 capital assets acquired from recent purchases (see above) all of which we physically viewed, were properly recorded in the detail property records. We found the following for the 22 assets tested:

- Eight assets (36 percent of all items viewed) were not recorded in the inventory records. These assets consisted of five computers, two printers, and a ping pong table.
- We could not initially trace a computer to the inventory records because it was located in a room different than where the inventory record indicated.

The lack of accountability over capital assets is illustrated by the difficulty of finding and physically viewing recorded capital assets or tracing actual assets to the District records. This was caused by incomplete and inaccurate inventory records and the lack of identification numbers affixed to capital assets. As a result of the internal control weaknesses, there is an increased risk of loss, theft or misuse of District owned assets.

## **Recommendation**

1. The Board should adopt a written comprehensive capital asset internal control policy that addresses all capital asset acquisitions and dispositions. This policy should:
  - Require that information relating to all capital assets be entered into the capital assets inventory system and have identification number tags affixed to them as soon as they are acquired to help prevent loss, theft, or misuse;
  - Outline procedures to follow when acquiring and disposing of District assets;
  - Require appropriate staff to conduct physical inventories and reconcile the assets viewed with the detail property records, and investigate and resolve any discrepancies found on a timely basis.

## Deficiencies in Controls Over Purchasing

A good system of internal controls over purchasing consists of policies, practices and procedures that provide reasonable assurance that duties relating to the purchasing and claims auditing function are properly segregated so that no employee performs incompatible duties and provisions of the District's adopted procurement policy are adhered to. Where it is not practicable to segregate all of these duties, the Board should institute compensating controls so that someone at a higher management level reviews their work.

District officials contract with BOCES to provide business office services. These services include processing and recording cash disbursements and processing of claims. The Treasurer routinely prepared purchase orders through the accounting system and then forwarded them to the Superintendent for approval as the Purchasing Agent. After approval, the Treasurer sent them to the vendors. When goods and/or services were received the Treasurer assembled all claim forms and supporting documentation into a claims packet and sent them to BOCES where the Accounts Payable Clerk then prepared warrants and returned them to the Internal Claims Auditor (Treasurer). The Internal Claims Auditor then reviewed all claims and supporting documentation and signed the warrants. After the warrants were signed the Accounts Payable Clerk at BOCES prepared the checks and mailed them to the vendors. During our audit period, and up until December 2005, the Treasurer was also the Internal Claims Auditor.

### Incompatible Duties

The Treasurer performed incompatible duties when she also served as the District's Internal Claims Auditor from the beginning of our audit period July 1, 2004 until December 2005. The duties of these two positions are incompatible because the Treasurer had the ability to, and did, prepare purchase requisitions and purchase orders, receive the purchased goods and/or services, and, when the Treasurer was also the Internal Claims Auditor, approved claims (to which the purchase orders she processed for payment related) and signed the warrants, basically ordering herself to pay the vendors, which is a most serious breach of internal controls.

As part of our audit procedures, we reviewed 345 disbursements and supporting documentation to determine whether they were properly approved before they were paid. We found 23 disbursements totaling about \$16,700 that lacked any documentation that someone other than the District Treasurer/Internal Claims Auditor had approved

the payments. Although we did not find any improper payments, the Treasurer alone approved and paid claims which allowed for the opportunity of the Treasurer to make improper payments without easily being detected. On a positive note, the Board addressed the incompatibility of the two positions in December 2005 by appointing an individual independent of the purchasing function as the Internal Claims Auditor.

### **Lack of Compliance with Procurement Policy**

Another important component of the District's internal controls relates to policies and procedures over purchasing goods and services not subject to competitive bidding laws. The Board adopted a procurement policy which requires District officials to obtain three verbal quotes for purchases of goods and/or services between \$1,001 and \$5,000 and three written quotes for purchases of goods and/or services between \$5,001 and \$10,000. District officials overrode the controls provided by the District's procurement policy by not obtaining quotes when required. While discussing internal controls over purchasing with District officials, they admitted to us that they were unaware of the procurement policy provisions setting dollar limitations requiring verbal and written quotes. Also, the Treasurer told us that it is often difficult to obtain quotes due to the fact that there are not a lot of businesses located in the District.

As part of our audit procedures, we reviewed documentation for 16 purchases to determine whether District officials were adhering to the provisions of the District's procurement policy and found that five payments (31 percent of the total reviewed) totaling about \$13,600 were paid without any supporting evidence that District officials obtained the required verbal or written quotes as required by the procurement policy.

Compliance with the provisions of the Board's written procurement policy helps ensure that competition is sought so that purchases of acceptable quality may be made at the lowest possible costs. District personnel should document that they have solicited and obtained quotes and should keep them on file as evidence that they have complied with the District's procurement policy. This documentation may also provide useful information to the Board and Internal Claims Auditor when auditing claims.

The failure of District officials and employees to follow the Board's procurement policy increases the risk that goods and/or services may not be acquired at the lowest possible costs.

**Recommendation**

2. The Board should ensure that all staff follow the requirements of its procurement policy and obtain quotes for goods and/or services as provided for by the District's procurement policy.

## **APPENDIX A**

### **RESPONSE FROM DISTRICT OFFICIALS**

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

# ANDES CENTRAL SCHOOL

85 Delaware Avenue  
P.O. Box 248  
Andes, New York 13731

Telephone (845) 676-3166 Fax (845) 676-3181

Guidance  
Arnold Barnes-Schwartz

Superintendent  
John T. Bernhardt

Treasurer  
Janice Stevens

August 7, 2006

[REDACTED]  
[REDACTED]  
Office of State Comptroller  
Division of Local Government Services  
44 Hawley Street, Room 1702  
Binghamton, New York 13901-4417

Dear [REDACTED]:

Andes Central School OSC Audit Response

We wish to thank the personnel of the Office of the State Comptroller who performed the field work related to the Andes Central School District, Report of Examination, OSC report number 2006M-75. They were courteous to our staff, and had helpful recommendations. The following is our response to the two findings contained in the draft audit report provided to us on July 14, 2006.

Finding #1 - Capital Assets  
We concur with this finding.

The Board will adopt a capital asset internal control policy during the current fiscal year. This policy will include a physical inventory interval, assign responsibility for the tagging of assets, and set limits for capitalization and insurance. The physical inventory will be scheduled over one of the school breaks during the current fiscal year. In addition, the person(s) responsible for these functions will be identified by title.

Finding #2 – Purchasing

We concur with this finding.

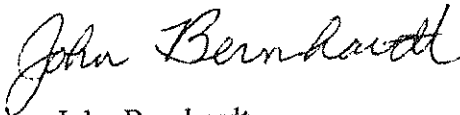
We agree that although the auditors “did not find any improper payments”, there is a need to improve internal controls regarding purchasing.

Upon passage of the Comptroller’s “5 Point Plan” legislation, and prior to the commencement of the audit field work, the district separated the duties of District Treasurer and Claims Auditor. The newly appointed Claims Auditor and other district staff have received job related training and instruction.

The Board Audit Committee has instructed the Claims Auditor to reject improperly completed voucher packets. This includes those packets lacking proper authorization and/or confirmation by the Purchasing Agent.

The Board Audit Committee will review the Board’s purchasing policies and any implementing regulations in the spring of each fiscal year. Recommendations will then be made to the entire Board. A policy/procedure review will be done at each annual reorganization meeting based on these recommendations.

Sincerely,



John Bernhardt

## APPENDIX B

### AUDIT METHODOLOGY AND STANDARDS

Our overall goal was to assess the adequacy of the internal controls put in place by officials to safeguard District assets. To accomplish this, we performed an initial assessment of the internal controls so that we could design our audit to focus on those areas most at risk. Our initial assessment included evaluations of the following areas: cash receipts and disbursements, purchasing, payroll and personal services, and capital assets and consumable inventories.

During the initial assessment, we interviewed appropriate District officials, performed limited tests of transactions and reviewed pertinent documents such as District policies and procedures manuals, Board minutes and financial records and reports. In addition, we obtained information directly from the computerized financial databases and then analyzed it electronically using computer-assisted techniques. This approach provided us with additional information about the District's financial transactions as recorded in its database. Further, we reviewed the District's internal controls and procedures over the computerized financial databases to help ensure that the information produced by such systems was reliable.

After reviewing the information gathered during our initial assessment, we determined where weaknesses existed, and evaluated those weaknesses for the risk of potential fraud, theft and/or professional misconduct. Based on that evaluation we determined that controls appeared to be adequate and limited risk existed in most of the areas we reviewed. We then decided upon the reported objectives and scope by selecting for audit those areas most at risk. We selected controls over capital assets and purchasing for further audit testing.

Our specific audit procedures included the following:

- We examined detail property records to determine whether they were being kept in a timely manner and included individual identification numbers for all assets.
- We verified that access to assets is restricted only to authorized persons.
- We obtained a listing of District motor vehicles and reviewed the District's insurance policy to verify that District vehicles are adequately insured.
- We selected a sample of assets located in District buildings and attempted to trace these assets to District inventory records to verify that they were being properly accounted for.
- We traced a sample of assets listed on recent purchases invoices and inventory records to their physical locations to verify that inventory records are accurate and up-to-date by physically viewing the assets.

- We selected all disbursements made in two different months and reviewed them for approval by the Purchasing Agent, the inclusion of supporting documentation, compliance with the District's procurement policy, propriety as charges against the District, and verification that the goods were received to ensure that there were no improper payments made during our audit period.

We conducted our audit in accordance with generally accepted government auditing standards (GAGAS). Such standards require that we plan and conduct our audit to adequately assess those district operations within our audit scope. Further, those standards require that we understand the district's management controls and those laws, rules and regulations that are relevant to the district's operations included in our scope. An audit includes examining, on a test basis, evidence supporting transactions recorded in accounting and operating records and applying such other auditing procedures, as we consider necessary in the circumstances. We believe that our audit provides a reasonable basis for the findings, conclusions and recommendations contained in this report.

## APPENDIX C

### HOW TO OBTAIN ADDITIONAL COPIES OF THE REPORT

To obtain copies of this report, write or visit our web page:

Office of the State Comptroller  
Public Information Office  
110 State Street, 15th Floor  
Albany, New York 12236  
(518) 474-4015  
<http://www.osc.state.ny.us/localgov/>

**APPENDIX D**  
**OFFICE OF THE STATE COMPTROLLER**  
**DIVISION OF LOCAL GOVERNMENT SERVICES**  
**AND ECONOMIC DEVELOPMENT**

Mark P. Pattison, Deputy Comptroller  
Steven J. Hancox, Assistant Comptroller  
John Clarkson, Assistant Comptroller

**LOCAL REGIONAL OFFICE LISTING**

---

**BUFFALO REGIONAL OFFICE**

Robert Meller, Chief Examiner  
Office of the State Comptroller  
295 Main Street, Room 1050  
Buffalo, New York 14203-2510  
(716) 847-3647 Fax (716) 847-3643  
Email: [Muni-Buffalo@osc.state.ny.us](mailto:Muni-Buffalo@osc.state.ny.us)

Serving: Allegany, Cattaraugus, Chautauqua, Erie,  
Genesee, Niagara, Orleans, Wyoming counties

**ROCHESTER REGIONAL OFFICE**

Edward V. Grant, Jr., Chief Examiner  
Office of the State Comptroller  
The Powers Building  
16 West Main Street – Suite 522  
Rochester, New York 14614-1608  
(585) 454-2460 Fax (585) 454-3545  
Email: [Muni-Rochester@osc.state.ny.us](mailto:Muni-Rochester@osc.state.ny.us)

Serving: Cayuga, Chemung, Livingston, Monroe,  
Ontario, Schuyler, Seneca, Steuben, Wayne, Yates  
counties

**SYRACUSE REGIONAL OFFICE**

Debora Wagner, Chief Examiner  
Office of the State Comptroller  
State Office Building, Room 409  
333 E. Washington Street  
Syracuse, New York 13202-1428  
(315) 428-4192 Fax (315) 426-2119  
Email: [Muni-Syracuse@osc.state.ny.us](mailto:Muni-Syracuse@osc.state.ny.us)

Serving: Herkimer, Jefferson, Lewis, Madison,  
Oneida, Onondaga, Oswego, St. Lawrence counties

**BINGHAMTON REGIONAL OFFICE**

Patrick Carbone, Chief Examiner  
Office of the State Comptroller  
State Office Building, Room 1702  
44 Hawley Street  
Binghamton, New York 13901-4417  
(607) 721-8306 Fax (607) 721-8313  
Email: [Muni-Binghamton@osc.state.ny.us](mailto:Muni-Binghamton@osc.state.ny.us)

Serving: Broome, Chenango, Cortland, Delaware,  
Otsego, Schoharie, Sullivan, Tioga, Tompkins  
counties

**GLENS FALLS REGIONAL OFFICE**

Karl Smoczynski, Chief Examiner  
Office of the State Comptroller  
One Broad Street Plaza  
Glens Falls, New York 12801-4396  
(518) 793-0057 Fax (518) 793-5797  
Email: [Muni-GlensFalls@osc.state.ny.us](mailto:Muni-GlensFalls@osc.state.ny.us)

Serving: Clinton, Essex, Franklin, Fulton, Hamilton,  
Montgomery, Rensselaer, Saratoga, Warren, Washington  
counties

**ALBANY REGIONAL OFFICE**

Christopher J. Ellis, Chief Examiner  
Office of the State Comptroller  
22 Computer Drive West  
Albany, New York 12205-1695  
(518) 438-0093 Fax (518) 438-0367  
Email: [Muni-Albany@osc.state.ny.us](mailto:Muni-Albany@osc.state.ny.us)

Serving: Albany, Columbia, Dutchess, Greene, Orange,  
Putnam, Rockland, Schenectady, Ulster, Westchester  
counties

**HAUPPAUGE REGIONAL OFFICE**

Richard J. Rennard, Chief Examiner  
Office of the State Comptroller  
NYS Office Building, Room 3A10  
Veterans Memorial Highway  
Hauppauge, New York 11788-5533  
(631) 952-6534 Fax (631) 952-6530  
Email: [Muni-Hauppauge@osc.state.ny.us](mailto:Muni-Hauppauge@osc.state.ny.us)

Serving: Nassau, Suffolk counties