



**Bolivar-Richburg
Central School District
Internal Controls Over
Capital Assets
and Cash Disbursements
Report of Examination**

Period Covered:

July 1, 2004 - December 27, 2005

2006M-72



ALAN G. HEVESI

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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 Bolivar-Richburg Central School District — Internal Controls Over Capital Assets and Cash Disbursements.

This audit was conducted pursuant to the State Comptroller's authority as set forth in Article 5, 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 Bolivar-Richburg Central School District (District) is located in southern Allegany County. The District has an enrollment of more than 950 students, and employs approximately 230 staff. The District is governed by a Board of Education (Board) which is comprised of seven 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.

The District's general fund budget for the 2005-2006 fiscal year totaled \$16.4 million. The District's major revenue sources include real property taxes and State aid, while employee salaries and related fringe benefits represent significant costs.

The District maintains a large inventory of capital assets to support day-to-day operations in its three school buildings. Capital assets are those assets with a useful life of more than one year and include such things as buildings, furnishings, vehicles and equipment. Reported capital assets totaled approximately \$33.5 million, net of depreciation, as of June 30, 2005.

The Business Office is responsible for District recordkeeping and the cash disbursement function.

Objective

The objective of our audit was to evaluate internal controls over the District's capital assets and cash disbursement procedures to ensure that District assets were properly safeguarded. Our audit addressed the following related questions:

- Were internal controls over capital assets appropriately designed and operating effectively?
- Were internal controls over the cash disbursements function appropriately designed and operating effectively?

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 cash disbursements areas and therefore, we examined internal controls in those areas for the period July 1, 2004 to December 27, 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 that they either have or plan to implement them.

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 your 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

The District's inventory of capital assets represents a significant investment of resources. It is essential that the District's capital assets are protected from loss, their value is maintained, and they are used effectively. This protection can be accomplished by adopting policies, maintaining perpetual inventory records, conducting periodic inventories, and establishing other safeguards such as tagging District owned assets with an identification number.

The District adopted policies and procedures to help safeguard its capital assets. These policies and procedures designated a property control manager, described the property records that should be maintained, required an annual inventory, and explained the Board's expectations for the disposition of capital assets.

In 1995, the District contracted with an appraisal company to conduct a physical inventory of its capital assets and prepare an inventory record, at a cost of \$4,270. Since then, this record has been updated annually by this appraisal company, based on asset acquisition and disposition activity provided by the District's property control manager. The appraisal company charges the District almost \$1,000 each year to update the records. Contrary to the terms of the District's capital asset policy, the District has not conducted a physical inventory since 1995. Therefore, the District has no way of determining whether the inventory records are accurate or whether the District actually has custody of its purchased capital assets.

We attempted to verify the existence of 23 items¹ listed on the February 1, 2005 inventory record prepared by the appraisal company, to determine if the inventory records were accurate. The assets tested had recorded values totaling \$102,381. We tried to locate many of these items with the assistance of District officials, but we were unable to find 12 of the 23 items or more than 50 percent of the assets tested. The value of the 12 missing assets totaled \$84,315. We further noted that none of the 11 items actually viewed had a tag affixed to them that identified the item as a District asset. District officials indicated that many of the missing assets had been previously removed from service and disposed. However, absent documentation evidencing that such dispositions had indeed occurred raises a concern that such

¹ The items tested included an assortment of electronic equipment such as computers, a typewriter, copier, stereo and television, as well as an oven, tractor and electric scooter.

assets may have been used in an unauthorized manner, lost or stolen. Given the significant number of missing items, we also question whether the inventory records are accurate enough to provide a suitable means with which to help identify whether unauthorized usage was occurring. This lack of control, from an accounting records perspective, is exacerbated by the fact that no physical inventories have been taken since 1995.

The failure to maintain accurate inventory records results in a lack of accountability over capital assets. As a result, the District faces an increased risk that errors and irregularities could occur and go undetected.

Recommendations

1. District officials should periodically conduct a physical inventory of its capital assets and compare those inventories to the capital asset inventory records. District officials should then investigate and resolve any discrepancies.
2. District officials should implement procedures to ensure that all capital assets have a tag affixed to them identifying them as District assets.
3. District officials should investigate the missing capital assets to determine if they have been properly disposed of or are subject to unauthorized use.

Cash Disbursements

In general, an effective system of internal controls over cash disbursements would require the proper distribution of duties so that the same individual does not perform incompatible functions. Proper division of responsibility should provide that the work of one employee is independently checked in the course of another employee's regular duties. Although optimal segregation of duties may not always be possible, at a minimum, the duties of recordkeeping, reconciling bank accounts, and making disbursements should be separated.

During our survey of cash disbursement procedures in the District's business office, we found that certain duties were not properly segregated. For example, the business manager has the ability to prepare and sign checks and also performs bank reconciliations, while a clerk that prepares and records payroll and another clerk who records contractual expenditures also have the ability to electronically produce and sign payroll and accounts payable checks.

Due to the internal control weaknesses noted, we examined 135 District check disbursements totaling \$1.4 million that were made by the business office during the 2004-05 fiscal year. We reviewed these disbursements to determine if they were properly authorized and supported with adequate documentation such as invoices and receiving reports. As a result of our testing, we concluded that the claims we tested were paid in accordance with management's directives and supported with adequate documentation.

When internal controls are not designed appropriately or operating effectively, it increases the risk that employee errors and irregularities may occur and not be detected and corrected.

Recommendation

4. The Business Manager, the Superintendent and the Board of Education should review the duties performed by Business Office personnel to better segregate recordkeeping duties from the preparation of bank reconciliations, and the processing of disbursements, to provide additional safeguards over assets and to improve internal control over District operations.

APPENDIX A
RESPONSE FROM DISTRICT OFFICIALS

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

Bolivar-Richburg Central School District

Joseph A. DeCerbo, Superintendent of Schools
Kathleen A. Hill, Secondary Principal
Michael A. Schott, Elementary Principal
Judy L. May, Curriculum Director

6-12 Secondary Building
100 School Street
Bolivar, NY 14715
Telephone: (585) 928-2561
Fax: (585) 928-1368

K-5 Elementary Building
P.O. Box 158, Main Street
Richburg, NY 14774
Telephone: (585) 928-1380
Fax: (585) 928-2362

July 20, 2006

[REDACTED]
[REDACTED]
Services and Economic Development
110 State Street
Albany, NY 12236

Dear [REDACTED]

I am writing to you regarding the draft report prepared by your office staff concerning Internal Controls Over Capital Assets and Cash Disbursements here at Bolivar-Richburg Central School.

First let me begin by commending the Office of the State Comptroller for starting the review of 700 plus school districts. I would also like to let you know that the auditor from your office who audited Bolivar-Richburg Central School was a very professional person to work with and he did not make any of our staff feel negative toward the audit process. I feel he was very thorough in the areas he was auditing and that the suggestions offered in the draft report are very useful to our district.

Appendix A – Response From District Officials –

After reading the audit report and participating in the exit discussion, it is our belief that in the area of cash disbursements, we have taken additional steps to continue to segregate duties and authority within our business office. As stated in the draft report, although optimal segregation of duties may not always be possible, some specific areas should be separated. To segregate duties within the business office even further, the treasurer will no longer record journal entries or transactions within the accounting system, WinCap, for which she also makes electronic payments/transfers. We will also have our junior accountant review all bank reconciliations compiled by the treasurer again setting up a system of checks and balances along with segregating various duties.

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As for the signing of checks, only the treasurer can officially sign all checks created. This has been done by working with the software provider to allow the review of all checks and then the official signing off of each check before the electronic signature can be printed on each check. With this process in place, no checks can be printed without a review and approval from the treasurer.

In the area of Capital Assets, we have reviewed our current software and are now able to generate a list of capital assets on all currently purchased items. We will now be able to keep a current list of items we own and those items that have been declared as surplus by our board of education and what has been done with these items.

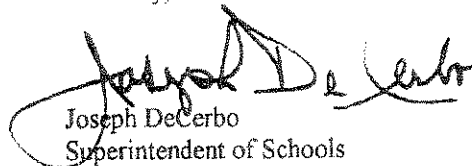
We are currently having a discussion with an inventory control/appraisal company to see what would be involved and the cost to have our capital assets reviewed and permanently labeled. We are in the process of setting up categories within our capital assets so we can more closely monitor these items:

Electronic Items – Calculators, VCR's, DVD's, TV's - \$100.00 - \$349.99
Electronic Items – Printers, Scanners, PDA's - \$350.00 - \$500.00
Computers – Desk Tops, Laptops - \$500.00 - \$3,000.00
Equipment – Lawn Equipment, Cars, Buses - \$3,000.00 - \$85,000.00
All Buildings Both Bolivar & Richburg

We are also including a random check of these items by performing a test on our capital assets during the summer. A review of our inventory sheet will be done and several items will be selected to determine where these items are located.

As you can see, we have taken these areas of concern brought to our attention by the State Auditor and have begun to take corrective action to control our capital assets and cash disbursements.

Sincerely,



Joseph DeCerbo
Superintendent of Schools

JD/ce

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(s). 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 risks might have occurred. 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 then decided upon the reported objectives and scope by selecting for audit those areas most at risk. We selected capital assets and cash disbursements for further audit testing.

Within capital assets, we reviewed District policy manuals and interviewed appropriate District officials and employees to obtain an understanding of the District's process for recording and accounting for capital assets. We also reviewed the property records prepared by the appraisal company. Finally, we conducted a physical inventory of selected capital assets listed on the inventory record prepared by the appraisal company.

Within cash disbursements, we focused our attention on whether certain financial functions within the business office were adequately segregated. We interviewed officials, observed transactions and examined financial records such as general ledgers, payroll registers, bank reconciliations, vendor claims, and cancelled checks, to determine the effectiveness of internal controls pertaining to the disbursement function and any associated effects of deficiencies in those controls.

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.

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