



# Canajoharie Central School District Internal Controls Over Electronic Equipment Inventories and Employee Reimbursements

## Report of Examination

Period Covered:

July 1, 2004 - November 30, 2005

2006M-110



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# State of New York Office of the State Comptroller

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## Division of Local Government Services and Economic Development

November 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 Canajoharie Central School District — Internal Controls over Electronic Equipment Inventories and Employee Reimbursements.

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 Canajoharie Central School District (District) is located in the Towns of Canajoharie, Palatine, Minden, Mohawk, Root and Charleston. 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. Responsibilities related to the District's finances, accounting records and reports are largely those of the District Business Administrator. All financial transactions are processed by the District's business office using a software package entitled InfoMatic. The District's financial statements are subjected to an annual audit by an independent public accounting firm.

There are three schools in operation within the District, with approximately 1,160 students and 175 employees. The District's budgeted expenditures for the 2005-06 fiscal year were \$15.8 million, and were funded primarily with State aid, real property taxes and grants.

Capital assets are those items that have a useful life of more than one year and include such things as land, buildings and building improvements, furnishings, vehicles and electronic equipment such as computers. The District's inventory of capital assets represents a significant investment of resources. As of June 30, 2005 the District's audited financial statements reported \$28.2 million in net capital assets of which approximately \$26.1 million is for land and buildings and \$2.1 million for equipment and furniture. According to the District's fixed asset inventory, the District's computer equipment inventory is valued at over \$1 million.

## Objectives

The objective of our audit was to evaluate the District's policies and procedures that govern inventory controls over electronic equipment as well as controls over expenditures for employee reimbursements. Our audit addressed the following related questions:

- Are internal controls over electronic equipment inventories appropriately designed and operating effectively?

- Are internal controls over expenditures for employee reimbursements appropriately designed and operating effectively?

**Scope and  
Methodology**

During this audit, we examined the internal controls over electronic equipment inventories and expenditures for employee reimbursements of the District for the period July 1, 2004 through November 30, 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, Section 2116-a (3)(c) of the Education Law and Section 170.12 of the Regulations of the Commissioner of Education, the Board must approve a corrective action plan that addresses the findings in this report, forward the plan to our office within 90 days, forward a copy of the plan to the Commissioner of Education and make the plan available for public review in the District Clerk's office. For guidance in preparing the plan of action, the Board should refer to applicable sections in the publication issued by the Office of the State Comptroller entitled *Local Government Management Guide*.

## Electronic Equipment Inventories

Electronic equipment, which includes items such as desktop and laptop computers, cameras, and other audio and visual equipment, should be properly safeguarded by the District. This is essential because these items are highly movable and represent a significant investment of resources. For these reasons, District officials must ensure that electronic equipment is protected from loss and used effectively. This protection can be accomplished by adopting policies, maintaining perpetual inventory records, conducting periodic inventories and establishing other safeguards. We examined the District's policies and practices relating to its electronic equipment inventories and found them to be weak, and even non-existent in certain instances.

### Perpetual Inventory Records

Effective controls over electronic equipment inventories should be established through the adoption of policies that outline procedures to properly safeguard the items. The District has not adopted policies that establish the Board's objectives related to electronic equipment inventories and set forth the duties, records and procedures required to achieve these objectives. The elements of such policies should include, at a minimum, designation of a property control manager, guidelines for the maintenance of asset records, provisions for periodic physical inventories, procedures for identifying equipment, restrictions on access and/or use, and procedures for the disposal of assets.

Ideally, one person (the property control manager) should have overall responsibility for keeping track of electronic equipment and for the accuracy and usefulness of the asset records. The person in charge of the property records should have restricted access to the respective assets. For example, the property control manager should not be the same individual who is responsible for accepting the receipt of new assets. It is essential that the detailed records maintained by the property control manager or other designated individual be complete, accurate and up-to-date. Each piece of moveable property should have a property record file that includes a description of the item including the make, model and serial number; the District's assigned identification number when appropriate; the date, cost, vendor information, and the related voucher number for the purchase; the department having custody of the asset and the asset's location within the department; and the source of funds used to purchase the item.

Although District officials have established a general fixed assets policy which requires that items valued at over \$500 be inventoried

for insurance and control purposes, they have not established any policies related specifically to electronic equipment inventories. During 2003, the District contracted with a private firm to prepare a comprehensive capital asset inventory record, which included an inventory of electronic equipment. Annually, the business office updates the inventory listing for any equipment purchased during the year. However, the most recent physical inventory, conducted in 2003, did not capture all the information needed to provide for an adequate accountability over the District's electronic equipment. For example, the inventory does not include adequate identification, such as individual serial numbers for all pieces of equipment. In addition, aside from this annual update of the capital asset inventory record, the District is not maintaining any ongoing perpetual inventory records of electronic equipment.

As of June 30, 2005, the District's inventory listing of electronic equipment reported that the District owned 353 computers and other various pieces of electronic equipment. However, the acquisition value for 133 of the items was not included in the inventory. Therefore, we could determine an acquisition value for only 220 of the electronic equipment items which was approximately \$1 million.

We tested 78 electronic equipment items purchased during our audit period to determine whether new asset acquisitions were properly recorded in the District's inventory records and that the records accurately reflected the location of the items. Of the 78 purchases tested, 22, or 28 percent, of the items could not be located, as follows:

- Two Palm Pilots could not be located at the time of our testing and there were no inventory records for these items.
- Eleven notebook computers, totaling \$9,889, had reportedly been distributed to teachers within the District. However, District officials indicated that there was no record of which teachers the computers were given to and there were no inventory records for any of these computers.
- The location of nine computer work stations could not be verified as there were no serial numbers included on the related invoices and there were no inventory records containing identification for the computers.

Without accurate reporting of dispositions and transfers of assets, neither we nor District officials could determine where these items are located or whether they are missing. None of the 56 items we did locate had adequate identification tags. The lack of adequate policies and procedures increases the risk for errors or irregularities to occur and

go undetected. Examples of such risks include electronic equipment being misplaced or improperly removed from District grounds without such occurrences being readily detected and rectified.

### **Disposition of Computers**

Effective controls over electronic equipment include policies and procedures related to the disposition of old equipment that the District is no longer using. If obsolete equipment is donated, there should be a policy that addresses the authorization for the disposition and procedures that assure that the disposition is fair, equitable and in the best interest of the District. There is no established procedure governing the disposal of computers or other electronic equipment. Conversations with various District officials revealed that there are instances when old computers, which are no longer considered useful to the District, are “lent” to students within the District. However, there is no procedure to determine which students these computers should be given to. We could not determine which computers were given to students because District officials did not maintain such records.

### **Recommendations**

1. The Board should establish a comprehensive inventory policy that communicates its objectives concerning the duties, records and procedures required for protecting the District’s inventory of electronic equipment. The policy should, at a minimum, address procedures for the maintenance of records needed to document acquisitions, dispositions, and transfers of electronic equipment.
2. A comprehensive inventory of electronic equipment should be completed and maintained on a perpetual basis. Physical inventories should be conducted periodically and the results compared with the information in the perpetual inventory records. Any differences should be promptly investigated and resolved.
3. Each piece of electronic equipment should be assigned an identification number and tag. Whenever possible, the name of the District should be prominently displayed on property and equipment.
4. The Board should establish a policy detailing the procedures for disposing of old electronic equipment to ensure that any such distribution is legally authorized, in the best interest of the District, and done in a fair and equitable manner.

## Employee Reimbursements

School districts should have policies and procedures in place to monitor and control district expenses incurred by their officials and employees. A comprehensive reimbursement policy should clearly describe which business related expenses the district will reimburse and set limits for how much the district will reimburse its officials and employees. Periodic reviews of the policies will help district officials ensure that authorized reimbursements are related to expenses incurred for proper district purposes and that reimbursement rates are realistic. The district should only reimburse individuals for actual and necessary expenses incurred in the performance of their official duties.

The Board has not adopted written policies concerning travel and other employee expenses to provide guidance to employees on what expenses are reimbursable by the District. Since the Board has not developed formal policies, District employees do not have clear standards upon which to base their decisions and actions for travel, meals and other expenses incurred during the performance of District duties.

The District utilizes a conference request form to document the approval process for employees attending conferences; these forms are completed by the employee desiring to attend a conference, sent to the appropriate building principal for pre-approval and then to the Superintendent for final approval. The form states that “expenses will be reimbursed only after submission of appropriate receipts and statements.” The form also indicates that approved meals will be reimbursed up to the following amounts: “Breakfast - \$5, Lunch - \$10, Dinner - \$15.” During the audit period, the District paid 100 claims, totaling \$13,075, for various job related reimbursements to employees of the District. We noted the following exceptions with 16 of the 100 claims reviewed, totaling \$4,636:

- The District did not comply with the requirements and rates stated on the conference request form. We noted the following on a claim for a music teacher’s conference trip to California in February 2005 totaling \$885:
  - o The teacher listed six meals on the claim for reimbursement; however, only two of the meals were supported by receipts attached to the claim. The four remaining meals were each supported with only a credit card statement which provided limited information as to

the date, location and cost of the meals. Also, the lodging expense, which totaled \$734, was not supported by an itemized receipt from the hotel. Therefore, we could not determine whether the amount reimbursed for lodging was accurate because we were not able to verify the rate charged or the number of nights spent at the hotel.

- o Five of the meals that were reimbursed exceeded the maximum dinner reimbursement rate of \$15, established on the conference request form. These five meals ranged from \$16 to \$69. Due to the lack of itemized documentation, we could not determine if these meals were for breakfast, lunch or dinner.
- Sixteen of the claims were related to employees traveling to conferences. Six of these claims, amounting to \$2,221, were not supported by documentation approving the employee's attendance at the conference.
- The District's middle school principal was reimbursed for four purchases of school equipment and supplies totaling \$1,142. While these purchases may have been for valid District purposes, they were not subjected to normal purchasing procedures, such as being approved through the District's purchase order system and the costs of such purchases being paid directly from the District to the vendors. Instead, the purchases were acquired individually by the Principal, who then submitted personal claims to the District for reimbursements. The items purchased were as follows:
  - o Super video graphics array and universal serial bus cables for \$122.
  - o A 27-inch television and a digital video camera for \$576.
  - o A projector and video supplies for \$293.
  - o A refrigerator for the faculty work room for \$151.
- We noted five other examples of personal reimbursements that appeared inappropriate as follows:
  - o The Business Administrator was reimbursed \$15 for purchasing doughnuts and muffins and \$40 for purchasing lunch for the independent auditors.
  - o The Superintendent was reimbursed \$21 for purchasing lunch for the independent auditor while reviewing the audit and for \$60 for paying for a working lunch with various consultants.
  - o On two separate occasions, the Superintendent was reimbursed \$30 for purchasing lunch for the District's attorney while he was at the Montgomery County

Courthouse giving a deposition for a case that the District was involved in.

- o The Superintendent was reimbursed \$192 for purchasing 22 used audio compact disks to replace a student's disks that had been stolen off a bus during a field trip in New York City.

While none of the exceptions noted during our review were individually significant in dollar value, the number of occurrences and the cumulative value of the exceptions demonstrate the necessity of having an adequate policy governing employee reimbursements to guard against an environment where questionable and inappropriate reimbursements could occur.

## **Recommendations**

5. The Board should establish a policy governing reimbursements of expenses incurred by employees. The policy should address the types of expenses employees can be reimbursed for and the amounts that the District will reimburse employees for items such as lodging, travel and meals.
6. The policy should require that all submittals for reimbursement be accompanied by the appropriate documentation, including itemized receipts.

## **APPENDIX A**

### **RESPONSE FROM DISTRICT OFFICIALS**

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

# Canajoharie

CENTRAL SCHOOL

Canajoharie, New York 13317

October 27, 2006

██████████  
██████████  
Glens Falls Regional Office  
One Broad Street Plaza  
Glens Falls, NY 12801

Dear ██████████,

District Officials were grateful for the opportunity to work with you in completing this audit. From the onset of this process, it was obvious that we were working with people who were very professional and took pride in their work. You established a friendly and supportive relationship that was non-threatening and welcoming. You have been helpful in not only identifying areas in need of improvement, but also in recommendations to address areas of concern.

## Electronic Equipment Inventories

The Canajoharie Central School District has always been at the forefront of technology. It has gone great lengths to acquire computers for use by students as well as faculty. In fact, Canajoharie's use of technology earned the district the distinction of being named a Pioneering Partner in Technology by the Great Lakes Governors Association in 1995. The district has secured many computers through grants and has also taken advantage of surplus computers offered by the State through periodic upgrades in various agencies. Presently, there are over 400 computers in the district.

The Board of Education has a policy committee which is now dealing with two policies recommended in this audit pertaining to computer technology. The first is a policy which establishes a *comprehensive inventory of electronic equipment*. This policy will outline the duties, records, and procedures needed to keep an ongoing and updated inventory of electronic equipment. It will provide for the immediate inclusion of additional electronic equipment at the time of acquisition. This inventory will also identify the location of every piece of electronic equipment in the district. The second policy will detail the procedures for the disposal of electronic equipment.

Website Address: [www.canajoharieschools.org](http://www.canajoharieschools.org)

*Superintendent*  
Richard G. Rose  
136 Scholastic Way  
Tel: 518/673-6302  
Fax: 518/673-3177

*High School Principal*  
Dr. Donald L. Bowden  
136 Scholastic Way  
Tel: 518/673-6330  
Fax: 518/673-3177

*Middle School Principal*  
Thomas D. Sincavage  
25 School District Rd.  
Tel: 518/673-6320  
Fax: 518/673-5557

*Elementary Principal*  
Virginia M.P. Nyabay  
25 School District Rd.  
Tel: 518/673-6310  
Fax: 518/673-3887

*Board of Education*  
Peter Liljeberg, *President*  
Eric Trahan, *Vice President*  
Carol Balte, *Member*  
Gordon Coleman, *Member*  
John DeValve, *Member*

### Employee Reimbursements

The Board of Education's policy committee is also establishing a policy on conferences and travel to define new limits for meals and other expenses incurred during the performance of district duties. This policy will establish when the district will reimburse an employee for meals and expenses and the limit of those reimbursements. The policy will also establish that no expenses will be reimbursed without proper receipts.

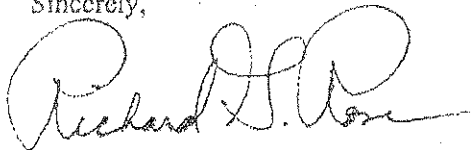
The district has informed all administrators that every purchase should be processed through the established system of using purchase orders. The district will not reimburse any person that circumvents the normal system of checks and balances, or makes a purchase without the prior approval of the purchasing agent.

In the course of working with lawyers, architects, auditors, and other professionals, it is often common to work through lunch. At times (probably less than five), the district paid for those lunches. At those times, the district did so to facilitate a continuation of that work. It was also on such occasions that the Superintendent would anticipate being billed for lunch expenses by these professionals that he would pay the bill. This occurred when the Superintendent was working through lunch with such people.

In the case where the Superintendent was reimbursed \$192 for purchasing 22 used audio compact discs to replace a student's discs that had been stolen off a bus during a field trip to New York City, these discs were on a school van that was used to transport another student to the hospital. The owner of the discs did not have a chance to retrieve them before the trip to the hospital. The Superintendent felt that it was the district's fault that these discs had disappeared and felt obligated to replace them. These discs were valued at over \$600, but the Superintendent bought them used through Amazon.com, saving over \$400. The only way they could be purchased was with a credit card. Since the district did not have a credit card, the Superintendent used his own and was reimbursed.

The Canajoharie Central School District has always tried to uphold the tightest standards of stewardship over taxpayer dollars entrusted in its care and welcomes and appreciates the recommendations of the auditors in strengthening those controls. District officials will ensure that the policies recommended in this audit are adopted and implemented shortly.

Sincerely,



Richard G. Rose  
Superintendent of Schools

RGR/pvh

## 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 of Education minutes and financial records and reports. In addition, with the help of District personnel, 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 databases. 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. We then decided upon the reported objectives and scope by selecting for audit those areas most at risk. We selected controls over electronic equipment inventories and expenditures for employee reimbursements for further audit testing.

We reviewed a sample of electronic equipment purchases made from July 1, 2004 to November 30, 2005 to determine if the District was maintaining adequate inventory records. To accomplish this, we reviewed a sample of claims that included purchases of various pieces of electronic equipment and traced them through the receiving process to determine if the goods were received, recorded in a perpetual inventory system, and tagged.

We also reviewed a sample of expenditures for employee reimbursements during the same period to determine if the reimbursements were appropriate; our sample included 100 claims paid to employees of the District.

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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