



# Candor Central School District Internal Controls Over Capital Assets and Computerized Data

Report of Examination

Period Covered:

July 1, 2004 - April 3, 2006

2006M-133



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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 Candor Central School District — Internal Controls Over Capital Assets and Computerized Data.

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 Candor Central School District (District) is located in the Towns of Candor, Spencer and Tioga in Tioga County and Caroline and Danby in Tompkins County. The District is governed by the Board of Education (Board), which comprises 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.

There are two schools in operation within the District, with approximately 900 students and 215 employees. The District's budgeted expenditures for the 2005-06 fiscal year were \$13,275,413, funded primarily with State aid, real property taxes and grants.

The Board has the responsibility to establish appropriate internal control policies and procedures that protect the assets of the District, including capital assets and computerized data. The Board also has the responsibility to ensure that these policies and procedures are effectively implemented, monitored, and updated as necessary.

The District's inventory of capital assets represents significant investment of resources. The District's audited financial statements report capital assets such as land, buildings and equipment with a total net book value of about \$30.3 million at June 30, 2005.

Staff of the District's information technology department store computerized financial data on a computer desktop acting as a file server. Two business office staff and the Superintendent can access this information. On an occasional basis, the file server is backed up to compact disks, which are stored on a shelf in one of the business offices.

## Objectives

The objective of our audit was to determine if internal controls over capital assets and computer data are designed and operating effectively. Our audit addressed the following related questions:

- Has the Board monitored District policies to ensure that capital assets are properly accounted for and controlled?
- Has the Board established policies to ensure data is properly backed up and plans are in place to prevent or help deal with potential disasters?

**Scope and  
Methodology**

Our overall goal was to assess the adequacy of the internal controls put in place by officials to safeguard District assets. In order 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. In addition, we assessed controls over safeguarding computerized data. 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 computerized data areas and therefore, we examined internal controls over capital assets and computerized data for the period July 1, 2004 to April 3, 2006.

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 findings and 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 have a useful life of more than one year and include such things as land, buildings, furnishings, and equipment. It is essential that District officials ensure that capital assets are protected from loss, that their value is maintained, and that they are used effectively for their intended purpose. District officials can fulfill this responsibility by designing and adopting internal controls over their capital assets and monitoring adherence to them.

The Board has adopted three separate policies relating to capital assets. One policy places responsibility on the Superintendent, or his designee, for maintaining an accurate and up-to-date inventory of equipment as well as accounting for the acquisition and disposition of capital assets. Another policy requires the Superintendent to maintain property records for each asset including date of acquisition, description, cost or value, location, responsible official, estimated useful life and date and method of disposition. District officials annually contract with a private company to provide the District with updated capital assets listing reports based on information about asset acquisitions and dispositions provided to the company by the District Treasurer. Once the company receives this data, it updates the capital assets listing and provides District officials with current reports. The policy provides that these records serve to establish accountability, determine replacement costs and provide appropriate insurance coverage. A third policy relates to the disposal of assets. We also found that the information technology and transportation departments keep inventory records of equipment for which they are directly responsible.

We found that the internal controls over capital assets were inadequate because the Board has failed to monitor compliance with its adopted capital assets policies. Currently, the District has no formal schedule to provide the private company that prepares the updated inventory record with information about asset acquisitions or asset dispositions, and then to verify the accuracy of the updated inventory record prepared by the company in a timely manner. Although the company can update the inventory records at any time during the school year, the District Treasurer missed the company's 2004-05 fiscal year update deadline and chose to include those updates with the 2005-06 updates at the end of the fiscal year. In addition, we found that the inventory records kept by the information technology and transportation departments were not compared to the capital asset listing provided by the outside company.

In addition to the control deficiencies we found, we also found certain deficiencies and discrepancies in the current inventory records. We tested information relating to 107 items. For 62 items, we attempted to trace information from the inventory records to the individual items; for the remaining 45 items, we determined whether selected items that we viewed in various locations were included in the reports. Our test showed that six of the 62 items on the listing could not be accounted for. We also identified various recordkeeping exceptions.

- Six items (three vehicles, purchased between 1987 and 1990 at a total cost of \$54,200; an above-ground fuel tank, which cost \$11,362 in 1990; a balance scale (donated); and a mower deck) on the inventory records could not be located. Although District staff told us that those items were surplus because they had exceeded their usefulness, we found no record of their disposal.
- Twenty-seven items we viewed were not included in the inventory records. These items included kitchen, auditorium, electronic and audio visual equipment; tools; and a tractor that was acquired in August 2005 at a cost of about \$25,000.
- Three items of electronic equipment and a floor cleaning machine were at locations other than those indicated on the inventory records; 10 items of equipment, including cameras, a computer and printer, a projector and VCR, did not have their locations identified in the records.
- The identification numbers of three items of electronic equipment included in the inventory records were either incomplete or incorrect, and a snare drum did not have an identification number associated with it.

The lack of monitoring compliance with controls over accounting for capital assets has resulted in errors in the inventory records that were not detected and corrected in a timely manner. Since the inventory records are not completely accurate, there is a decreased assurance that all capital assets are adequately protected against loss, waste, and misuse.

## Recommendation

1. The Board should require District officials to account for the missing assets. The Board should also monitor compliance with the District's current policies and procedures relating to capital asset management and ensure that corrective action is taken, as necessary, to properly account for District assets.

## Computerized Data

An effective system of internal controls to safeguard computerized data includes policies and procedures adopted by the Board to minimize the loss of essential data. Policies and procedures should limit user access to only authorized persons to protect data from loss by intentional or unintentional manipulation, and to restore data if unavoidably lost or corrupted. This system of internal controls should also include a disaster recovery plan and a routine system of computer data back up so that in the event of loss of computerized data, it can be restored with a minimal amount of inconvenience as quickly as possible. Disaster includes any sudden, unplanned catastrophic event (e.g., fire, a computer virus or inadvertent employee action) that compromises the integrity and data of the information technology systems.

The Board has not effectively addressed the safeguarding of computer data by establishing appropriate control policies and procedures. Because computer data is necessary for operations to proceed smoothly, it should be adequately and deliberately protected. The following represents more specific areas where internal controls need to be enhanced.

### **Data Recovery**

Data stored on computers and servers should be backed up (a duplicate copy of information made) on a routine basis to enable it to be restored in the event of the loss of the original data. The back-up copy of data should be stored at a secure offsite location. Also, there should be a formal plan detailing responsibilities of individuals and procedures to follow to recover lost data in the event of a disaster. This plan should help minimize business cycle interruption and address the process of returning to normal business functioning as soon as possible.

The Board has not established an appropriate routine back-up system or adopted a suitable data recovery plan. Currently users are backing up their data to the same computer hard drives where the original information is stored or to diskettes that are kept near the computer. The file server is backed up to compact disks but they are stored on a shelf in one of the business offices. There is no set schedule for the frequency of backing up data; backups are performed only occasionally. While the site where the computers are located is locked at night, a fire or other disaster could not only destroy or damage the computers but also the diskettes and compact disks with backed up data, resulting in a loss of essential data which may not be recoverable.

The District risks losing essential computer data without a means of easily recovering it, which would have a negative impact on continuation of operations. Notably, a District official told us that about four years ago they needed to restore lost data and it took about a month to do so because the data was not backed up and had to be entirely reentered into the computer.

### **Computer User Access Privileges**

Another component of strong internal controls over computer data is policies and procedures designed to limit access to data. Access should be restricted to specific authorized users, based on the needs of their particular job functions.

We found that there are six actively assigned computer user accounts but only three active users. Two of the assigned available user accounts were for former employees who are no longer employed by the District and the remaining available user account is assigned to an employee who already has a different assigned account, giving this user access to two computer user accounts. The first account has access privileges related to this employee's current job duties and the second account has Administrator privileges which allow the user to create new or change existing user access accounts and access other areas of financial data that are not necessary for this employee's job duties. Thus, there is increased risk that unauthorized users may have access to the District's computer data. The Board has not adopted any policies that address the removal of unused accounts, and Board members were not aware of the vulnerability that unused accounts access presents.

The lack of Board policies and procedures over user accounts has allowed three accounts to remain inappropriately active, including one with Administrator rights; these accounts could be used to change or destroy data without being detected.

### **Recommendations**

2. The Board should adopt policies and procedures to strengthen internal controls relating to computer data backup and disaster recovery.
3. The Board should adopt policies and procedures to restrict the number of computer user accounts to only authorized individuals based on job responsibilities.

## **APPENDIX A**

### **RESPONSE FROM DISTRICT OFFICIALS**

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



# CANDOR CENTRAL SCHOOL

P. O. Box 145  
Candor, New York 13743-0145

JEFFREY J. MISLOSKI  
Superintendent  
Phone 607-659-5010  
Fax 607-659-7112

November 1, 2006

[REDACTED]  
Office of the State Comptroller  
State Office Building, Room 1702  
44 Hawley Street  
Binghamton, NY 13901-4417

Dear [REDACTED]:

Please consider the following a response and corrective action plan to the Report of Examination of Candor Central School District for the period of July 1, 2004 to April 3, 2006.

Your audit focused on two primary areas: Capital Assets and Computerized Data. Your report made the following suggestions:

- The Board should monitor compliance with the District's current policies and procedures relating to capital asset management and to ensure proper accounting of District assets.*

Within the next 60 days, the Board of Education will approve a Comprehensive Capital Asset Management Plan as part of its District Office Procedural Manual. The Capital Asset Management Plan will delineate a Property Control Manager and will define procedures and timelines associated with the task of capital asset management.

- The Board should adopt policies and procedures to strengthen internal controls relating to computer data backup and disaster recovery.*

With the next 60 days, the Board of Education will approve a Comprehensive Computerized Data Plan as part of its District Office Procedural Manual. Please note, the District has already implemented functional data backup and disaster recovery procedures. All District financial data is currently backed up weekly and stored in the District's fireproof safe.

- The Board should adopt policies and procedures to restrict the number of computer user accounts to only authorized individuals based on job responsibilities.*

Candor Junior-Senior High School  
Phone 607-659-5020  
Fax 607-659-4692

Candor Elementary School  
Phone 607-659-3935  
Fax 607-659-4688

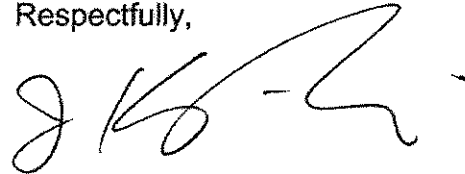
Special Education Department  
Phone 607-659-7727  
Fax 607-659-4688

[www.candor.org](http://www.candor.org)

As part of the Comprehensive Computerized Data Plan, user account access and account management procedures will be clearly delineated. Please note, that as of the exit conference with the State Auditors, all unnecessary user accounts had been deleted.

As expressed during the exit conference, we found the external audit process very helpful. The Board of Education and Administration are committed to ensuring that your recommendations are implemented in an effort to continually improve the effective and efficient management of the Candor Central School System.

Respectfully,

A handwritten signature in black ink, appearing to read 'J. Kisloski', with a stylized flourish at the end.

Jeffrey J. Kisloski  
Superintendent

JJK:kap

## 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 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. 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 computerized data for further audit testing.

To accomplish the objectives of this audit and obtain valid audit evidence, we performed the following procedures:

- We reviewed capital assets policies and procedures;
- We interviewed appropriate District officials and employees in regards to capital asset policies and procedures;
- We reviewed all District inventory lists for accuracy by physically locating assets as listed on the inventory records and tracing a sample of assets back to the inventory records;
- We assessed the District's established internal controls over capital assets to ascertain whether they provided sufficient and adequate safeguards;
- We reviewed the District's computer access and security protocols and procedures;
- We reviewed the District's computer data back-up and recovery protocols and procedures.

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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