



# Charlotte Valley Central School District Internal Controls Over Capital Assets and Purchasing

Report of Examination

Period Covered:

July 1, 2004 - February 28, 2006

2006M-155



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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

December 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 Charlotte Valley 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 Charlotte Valley Central School District (District) is located in seven towns within Delaware, Otsego, and Schoharie counties. 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 455 students and 68 employees. The District's budgeted expenditures for the 2005-06 fiscal year were approximately \$6.1 million, which were funded primarily with State aid, real property taxes, and grants.

District officials contract with a private company to prepare updated capital asset listing reports in July each year. The company also performs periodic physical inventories to help ensure the accuracy of the reports. As of June 30, 2005, the District reported approximately \$11.7 million in capital assets of which approximately \$2.7 million was for machinery and equipment.

District officials contract with the Board of Cooperative Educational Services (BOCES) to provide business office services. These services include processing and recording cash disbursements, and processing vendor claims. District officials are members of an alliance that contract for labor relations services through a cooperative agreement. As part of this contract, the labor relations administrator also acts as the District's claims auditor. The administrator has served as the claims auditor for approximately 10 years.

## Objective

The objective of our audit was to determine if the District has safeguarded its capital assets and established controls over purchasing. 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, 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 procurement areas and, therefore, we examined internal controls over capital assets and purchasing for the period July 1, 2004 to February 28, 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 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*.

## Claims Processing and Procurement

A main component of the District's internal controls over purchasing relates to policies and procedures governing the claims processing and procurement functions. In general, the objectives of claims processing is to ensure that every claim contains enough supporting documentation to determine whether it complies with District policies, and that the amounts claimed represent actual and necessary District expenses. The objectives of a procurement process are to obtain services or buy materials, supplies and equipment of the best quality, quantity, source and price in compliance with all the applicable Board and legal requirements. This process helps ensure that the District expends taxpayer dollars in the most efficient manner.

### **Audit of Claims**

The Board is responsible for establishing policies and procedures relating to the auditing of claims to reduce the risk of fraud, waste, and abuse of assets. Written policies and procedures should provide clear guidance on claims auditing responsibilities. An effective internal control system requires that all claims be deliberately and thoroughly audited before the District pays them. It is important for the claims auditor to audit all claims to determine whether they are proper charges against the District. This audit consists of ensuring that all claims are sufficiently itemized, in proper form, and are mathematically correct; do not include charges previously paid; comply with competitive bidding laws and procurement policy requirements; include documentation that indicates that the claims have been approved by the purchasing agent; and contain evidence that the District actually received the goods or services.

The District contracts with BOCES to provide business office services, including processing and recording cash disbursements and processing vendor claims. A District secretary routinely prepares purchase orders through the accounting system and then forwards them to the Superintendent (who also functions as the District's purchasing agent) for approval. After approval, the secretary sends the purchase orders to the vendors. When goods and/or services are received, all claim forms and supporting documentation are sent to BOCES, where the accounts payable clerk then prepares the warrants of claims audited and approved for payment. The warrants and supporting documentation are then sent to the claims auditor for review. After the warrants are signed by the claims auditor, they are sent back to BOCES, where the accounts payable clerk prepares the checks — which includes affixing the Treasurer's signature on the

checks through the use of a signature plate – and mails them to the vendors.

District officials are members of an alliance that contracts for labor relations services through a cooperative agreement. As part of this contract, the labor relations administrator also acts as the District's claims auditor. The administrator has served as the claims auditor for approximately 10 years.

Although District officials had adopted a policy relating to the claims auditor's duties, the policy was very general<sup>1</sup> and did not provide sufficient detail as to what was expected from the claims auditor when auditing claims. The claims auditor told us that he reluctantly accepted the position and that he was uncertain as to his exact duties and responsibilities. He also told us that he approves the warrants without performing, what he believes, is an adequate audit of claims.

We reviewed 98 claims and related purchase orders, totaling \$345,263, that were approved by the claims auditor and paid by the District. We found the following:

- One claim for an \$874 computer had no indication that the purchasing agent authorized the purchase.
- Two claims for electronic organizers and auto parts, totaling \$3,494, were paid prior to the warrant date.
- One \$1,428 claim for travel expenses did not contain sufficient supporting documentation.
- Thirty-two claims, totaling \$112,431, for such items as a school bus, school lunch food and auto parts, had purchase orders issued by the purchasing agent after the date of the invoice.
- One \$79 claim was paid twice, but the amount was later credited to the District's account.

While our testing did not reveal significant deficiencies, the current internal control system over the audit of claims could be improved and the risk still exists that errors and/or irregularities could occur

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<sup>1</sup> The policy stated that the claims auditor "shall examine all claims forms with respect to the availability of funds within the appropriate codes; substantiate receipts or other revenues of expenditures; and meet such other requirements as may be established by the regulations of the Commission of Education and/or the Comptroller of the State of New York."

and not be detected in a timely manner. These deficiencies may have been avoided if the Board had established detailed claims auditing procedures for the claims auditor, and then ensured that the claims auditor was complying with the procedures.

## **Procurement Policy**

Another important component of the District's internal controls relates to policies and procedures over purchasing goods and services that are not subject to competitive bidding laws. The Board adopted a procurement policy that requires District officials to obtain three written quotes for acquisitions which cost more than \$1,000 but are less than amounts required by the competitive bidding statutes. The District's procurement policy is designed to guard against favoritism, improvidence, extravagance, fraud and corruption, and to foster honest competition to ensure that the District obtains the best goods and services at the lowest possible price.

District officials overrode the controls provided by the District's procurement policy by not obtaining quotes when required. We reviewed documentation for 14 purchases to determine whether District officials were adhering to the provisions of the District's procurement policy and found that all 14 purchases (totaling \$46,106) were paid without any supporting evidence that District officials or staff obtained the required written quotes as required by the procurement policy. These purchases included electronic organizers, special reading material, a computer, and playground equipment.

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.

## **Recommendations**

1. The Board should establish written policies and procedures that provide clear guidance on claims auditing responsibilities and communicate these procedures to the claims auditor.
2. The Board should periodically review the work performed by the claims auditor to ensure that established policies and procedures are being followed.
3. The Board should ensure that all staff members follow the District's procurement policy requirements and procedures, including obtaining and documenting quotes for goods and/or services.

## Capital Assets

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

In July of each year, District officials contract with a private company to update the capital assets listing reports with information provided by the District. These capital asset inventory records include asset descriptions, manufacturers, locations, quantities, acquisition costs, accumulated depreciation, and usually serial numbers. The company also performs periodic physical inventories of District capital assets, upon request.

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. The Board has not established a capital asset acquisition policy that outlines procedures for staff to follow when acquiring District assets. Furthermore, some capital assets are missing identification numbers. In addition, there is no indication that the Board or other designated official approved all dispositions. Finally, District personnel have not performed, nor have they requested the company they contract with to perform, a physical inventory of the District's capital assets since December 2, 2003.

We selected 53 capital assets<sup>2</sup> to verify their existence, and to ensure that District staff affixed identification numbers to them and accurately included information pertaining to the items – such as their locations and identification numbers – in the capital asset inventory records. We found the following:

- Seven items, which cost a total of approximately \$20,000, listed in the capital asset inventory records were missing. These items consisted of five computers, an overhead projector, and a Xerox “all-in-one center.” District officials informed us that these items had been disposed of because the assets were no longer functional. Given the age of the equipment, this seems reasonable. However, the assets were not removed from the capital asset inventory records. We did not find any indication that the Board approved these dispositions, or any documentation evidencing these dispositions.

<sup>2</sup> Assets were selected from capital asset inventory records (23 assets), information pertaining to recently purchased assets (10 assets), and from random locations within the District (20 assets).

- Eighteen items were located in rooms different than what was indicated in the capital asset inventory records. Nine of these items did not have a cost value recorded.
- Ten items had different identification numbers affixed to them than what was recorded in the capital asset inventory records. Four of these items did not have a cost value recorded.
- Four items, which cost a total of approximately \$8,000, had no identification numbers affixed to them. The assets included a digital camera, copier, typewriter, and a baseball pitching machine.
- Fourteen items were not included in the inventory records.

In addition, we reviewed 43 capital asset dispositions to determine if the dispositions were approved by the Board or a designated official, and if information pertaining to these assets was removed from the capital asset inventory records. We found that four of the asset dispositions were approved by the Board, but only two were removed from the capital asset inventory records. The remaining 39 dispositions were not approved by either the Board or a designated official, but all were removed from the capital asset inventory records.

The lack of accountability over capital assets is illustrated by the difficulty that we had in finding and viewing recorded capital assets; incomplete and inaccurate inventory records, and, in some cases, the lack of inventory records; the lack of identification numbers affixed to certain capital assets; the lack of approval for asset dispositions; and the District's failure to perform an annual physical inventory of District assets.

## **Recommendations**

4. District officials should account for the seven missing items. The Board also should 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.
5. The Board should adopt a written comprehensive capital asset internal control policy that addresses all capital asset acquisitions and dispositions. This policy should:
  - Outline procedures that District staff should follow when acquiring and disposing of assets, and include procedures that require the Board or a designated official to approve all dispositions.

- Require that District staff enter into the records information relating to all capital asset acquisitions, and to affix identification number tags to the assets as soon as they are acquired
- Require appropriate staff to conduct physical inventories, reconcile the capital assets viewed with the capital asset inventory records, and investigate and resolve any differences in a timely manner.

## **APPENDIX A**

### **RESPONSE FROM DISTRICT OFFICIALS**

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



# CHARLOTTE VALLEY CENTRAL SCHOOL

15611 State Highway 23 • Davenport, New York 13750

Phone (607) 278-5511

Fax (607) 278-5900

December 7, 2006

Office of the State Comptroller

[REDACTED]  
State Office Building, Room 1702  
44 Hawley Street  
Binghamton, New York 13901-4417

Re: Report of Examination – July 1, 2004 through February 28, 2006

Dear [REDACTED]:

This letter will serve as the official response of the Charlotte Valley Central School (CVCS) District relative to the above-referenced report conducted by your office.

Regarding your findings with respect to Claims Processing and Procurement, we acknowledge the need to review the district's policies and improve the claims audit processes. Effective 7/1/06, the Board of Education appointed, and provided appropriate training for, a new Internal Claims Auditor. In addition, the Board, through the administration and our law firm, has contracted for services that will update the district's policies and procedures manuals. Further, meetings have also been held with school personnel relative to informing them about changes in the district's procurement processes and to reinforce the need to use appropriate protocols with respect to securing purchase orders.

In the past, CVCS contracted with an outside vendor to provide the district with an annually updated list of capital assets and values. From your commentary, we acknowledge that our existing policies and procedures were insufficient to adequately address the acquisition and disposition of our capital assets. We further acknowledge that our procedures to monitor the internal movement of our capital assets were equally insufficient to meet updated standards for inventory control.

In closing, we do not take issue with any of your findings and view this examination as a way to continue to improve the district's day to day operations.

Yours truly,

Gary R. Gundlach, President  
CVCS Board of Education

## 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, 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 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 on 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 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 purchase invoices and inventory records to their physical locations to verify that inventory records were accurate by physically viewing the assets.
- We selected a sample of disbursements and reviewed them for approval by the claims auditor and 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

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