



Chazy Central Rural School District Internal Controls Over Capital Assets

Report of Examination

Period Covered:

July 1, 2004 - May 31, 2006

2006M-138



Table of Contents

	Page
AUTHORITY LETTER	3
INTRODUCTION	5
Background	5
Objective	5
Scope and Methodology	5
Comments of District Officials and Corrective Action	6
INTERNAL CONTROLS OVER CAPITAL ASSETS	7
Recommendations	8
APPENDIX A Response From District Officials	10
APPENDIX B Audit Methodology and Standards	12
APPENDIX C How to Obtain Additional Copies of the Report	14
APPENDIX D Local Regional Office Listing	15

State of New York Office of the State Comptroller

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 Chazy Central Rural School District — Internal Controls Over Capital Assets.

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 Chazy Central Rural School District (District) is located in the Town of Chazy in Clinton County. It 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. Responsibilities relating to the District's finances, and accounting records and reports are largely those of the District's Business Manager.

The District's building complex is organized by grade level into an elementary and a junior/senior high school which has approximately 570 students and 95 employees. The District's budgeted general fund expenditures for the 2005-06 fiscal year were \$7.9 million, which were funded primarily by State aid, real property taxes, and grants.

As of June 30, 2005, the District reported approximately \$14.9 million in capital assets, of which approximately \$12.3 million represented land and buildings, and \$2.6 million represented equipment. The equipment inventory included more than \$388,900 in computers.

Objective

The objective of our audit was to determine whether the District's internal controls over its capital assets are adequate. Our audit addressed the following related question:

- Are internal controls over capital assets 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 a degree of risk existed involving the District's capital assets and, therefore, we chose to examine internal controls over capital assets.

During this audit we examined internal controls over the District's capital assets for the period July 1, 2004 to May 31, 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*.

Internal Controls Over Capital Assets

Capital assets are those assets that have a useful life of more than one year and include land, buildings and building improvements, furnishings, vehicles and electronic equipment such as computers. The District's capital asset inventory, valued at approximately \$14.9 million, represents a significant investment of District resources. The Board and District officials are responsible for designing internal controls that help protect the District's assets.

District officials can fulfill this responsibility by adopting a capital asset policy that sets forth the duties, records and control procedures required to adequately safeguard capital assets, appointing a property control manager with overall responsibility for tracking these assets, and monitoring adherence to control procedures designed to protect capital assets. Capital asset protection is enhanced by the maintenance of accurate and up-to-date asset records, and the performance of annual physical inventories to monitor the accuracy of the records and determine the existence and condition of the assets. Inventory accountability is maintained by comparing these periodic inventory results to the official capital asset inventory records. The record for each asset should include a description of the item (including make, model and serial number), the District's assigned identification number, purchase data, and asset location. Asset items should also be tagged to make it easier to readily identify them.

The District's existing capital asset policy does not provide for a property manager to track and monitor the District's capital assets. Instead, the policy requires teachers and department supervisors to annually perform an inventory of their rooms and departments for any items exceeding \$500 in value and return the individual inventory sheets to the Business Manager. The inventory information submitted by teachers and department supervisors is not independently verified.

The Business Manager generally updates the District's capital asset records annually, using an Excel spreadsheet, typically at the end of the fiscal year, when the teachers and department supervisors provide their inventory information. However, the inventory records for the District's capital assets are not maintained in a timely and accurate manner. As of the end of our audit field work on July 22, 2006, District employees had not completed an inventory for the 2005-06 fiscal year and not all of the inventory changes from the prior fiscal

year had been recorded on the District's inventory records. Assets are identified by physical description because the District has not assigned identification tags to all items. The Business Manager also uses purchase information from the accounting records and deletion information from disposition forms to update the capital asset records. Although the Superintendent issued a directive in 2004 to all District employees requiring that a "discard form" be completed for all asset disposals, there has been only limited compliance with this directive. Therefore, the Business Manager does not have accurate information from which to update the records. As a result of these deficiencies, certain equipment purchases were not recorded in the inventory records, while certain disposed equipment was not removed from inventory records.

We focused our testing of the inventory on computers. Initially, we were only able to locate 223 of the 393 computers included in the District's inventory records. In addition, only 163 of the 223 computers were in the locations indicated on the inventory records. Subsequently, based on additional information provided by the Business Manager, we were able to confirm that 133 of the 170 computers that could not be located initially were either duplicate entries in the inventory listing or had been disposed of without being deleted from the records. District officials were unable to account for the remaining 37 computers.

In addition to verifying the accuracy of the inventory records, we attempted to verify the physical location of 14 computers, purchased during the period July 1, 2004 to June 30, 2006, and their entry in the District's inventory records. Although we were able to locate all 14 computers, 11 computers were not accounted for in the District's fixed asset records.

Because District officials did not perform adequate periodic physical inventories, they were unaware of the recording deficiencies. In addition, an increased risk of asset loss or misuse exists because inventory counts are performed by the same people who have custody of the assets. Finally, the failure to monitor compliance with the guidelines for the disposal of capital assets, especially computer equipment, exposes the District to possible errors and irregularities, including fraud, which may occur and not be detected.

Recommendations

1. District officials should designate a property control manager to be responsible for tracking capital assets and ensuring the accuracy and usefulness of the Districts asset records.

2. The Board should require that an identification number be assigned to all applicable capital assets, especially computer equipment, and record those numbers in the inventory records as well as affixing them on the individual assets.
3. The Board should enforce the written guidelines governing the disposal of the District's capital assets including computer equipment.

APPENDIX A

RESPONSE FROM DISTRICT OFFICIALS

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

The District's response letter makes reference to an attachment that supports the response letter. Because the District's response letter provides sufficient detail of its actions, we did not include the attachments in Appendix A.

CHAZY CENTRAL RURAL SCHOOL

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(518) 846-7135 FAX (518) 846-8322

SUPERINTENDENT OF SCHOOLS
KEVIN R. MULLIGAN



ELEMENTARY PRINCIPAL
THOMAS T. TREGAN

November 15, 2006

Office of the State Comptroller
One Broad Street Plaza
Glens Falls, NY 1280

To Whom It May Concern:

Please accept the following response and corrective action plan endorsed by the Chazy Central Rural School Board of Education. Both the response and the corrective action plan come from the recent audit performed by your office in June/July 2006.

Response

At their regular meeting on November 14, 2006 the Chazy Board of Education adopted a Capital Asset Accounting Policy. A copy of this policy is enclosed and addresses the recommendations contained in the Draft Audit Report reviewed on November 9, 2006.

Corrective Action

1. At the regular meeting on November 14, 2006, Mrs. Danielle McAfee, Business Manager for Chazy Central Rural School District was appointed as the Property Control Manager.
2. To date Mrs. McAfee has tagged 85-90% of the capital assets at Chazy Central Rural School District. She has also tagged over 90% of all computer equipment at Chazy Central. She began this process in August of 2006 and is expected to complete this task by mid-December, 2006.

In closing I commend the expertise and professionalism of [REDACTED] and [REDACTED] of your office. If you have any other concerns, comments or suggestions do not hesitate to contact any of our school officials or me.

Sincerely,

A handwritten signature in cursive script that reads "Mark R. Henry".

Mark R. Henry, President
Board of Education

MRH:nav

APPENDIX B

AUDIT METHODOLOGY AND STANDARDS

Our overall goal was to assess the adequacy of the internal controls put in place by District 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. 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 a degree of risk existed involving the District's capital assets and, therefore, we chose to examine internal controls over capital assets.

To accomplish the objectives of this audit, our procedures included the following:

- We interviewed District officials responsible for the purchase and accountability of the District's capital assets.
- We performed, on a test basis, comparisons of capital purchases to assets listed in the inventory records, and to the actual assets located in the school and administrative facilities. We also performed, on a test basis, comparisons of assets located in the schools and administrative facilities to the inventory records.
- We performed a physical inventory of computer equipment throughout the entire school. The physical inventory was then compared to the information recorded in the fixed asset records. We also selected a test group of computer purchases and compared them to the fixed asset records to ensure they were included in the inventory.

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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