



Chenango Forks Central School District Internal Controls Over Capital Assets

Report of Examination

Period Covered:

July 1, 2004 - February 16, 2006

2006M-112



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State of New York Office of the State Comptroller

Division of Local Government Services and Economic Development

September 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 Chenango Forks Central 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 Chenango Forks Central School District (District) is located in the Towns of Barker, Chenango, Fenton, Maine and Triangle in Broome County and the Town of Greene in Chenango County. 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 are four schools in operation within the District, with approximately 1,846 students and 295 employees. The District's budgeted appropriations for the 2005-06 fiscal year are \$25.9 million funded primarily with State aid, real property taxes and grants.

The District's audited financial statements for the 2004-05 fiscal year included capital assets consisting of land, buildings and equipment with a total net book value at June 30, 2005 of \$22,597,830.

Objective

The objective of this audit was to determine if the District has properly safeguarded its capital assets. Our audit addressed the following related question:

- Are internal controls over capital assets appropriately designed and operating effectively to adequately safeguard and account for these 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. 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. 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 area and therefore, we examined internal controls over capital assets for the period July 1, 2004 to February 16, 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 recommendation 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, the Board should prepare a plan of action that addresses the recommendation 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.

Internal Controls Over Capital Assets

Capital assets are assets with a useful life of more than one year, and include such things as land, buildings, furnishings and equipment. The District's inventory of capital assets, valued at almost \$22.6 million, represents a significant investment of District resources. District officials should ensure that capital assets are protected from loss, that their value is maintained and that they are used effectively.

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. 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.

We found the Board could enhance its controls over District assets. As of the end of our fieldwork, the Board had not adopted a capital asset policy that described the duties, records and procedures required to safeguard capital assets; appointed a property control manager; or required annual inventories to verify record accuracy and account for assets. Our audit test confirmed the need for control improvements. We selected 27 assets with a total value of \$96,838 for testing. These items consisted of 16 computers; seven maintenance and office equipment items, three pieces of electronic equipment and one vehicle. We were able to physically locate all 27 assets. However, during the course of our test, we found that the District's asset inventory records are not up-to-date, since 21 assets were not recorded on the records. Furthermore, 22 of the 27 items were not tagged with a District-assigned identification number. Improved records and control procedures would improve the District's accountability for its capital assets.

Recommendation

1. The Board should adopt and monitor compliance with a comprehensive capital asset policy that:
 - assigns someone responsibility for tracking capital assets and ensuring the accuracy of asset records;

- identifies the information that should be included for each asset listed in the records;
- requires an annual physical inventory of capital assets, with investigation of any discrepancies; and
- requires that assets be tagged with a unique identifier.

APPENDIX A

RESPONSE FROM DISTRICT OFFICIALS

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

The District response letter makes reference to an enclosed fixed asset inventory. Because the District's response letter provides sufficient detail of its actions, we did not include the inventory information in Appendix A.



Business Office

CHENANGO FORKS CENTRAL SCHOOLS

1 Gordon Drive, Binghamton, New York 13901 • (607) 648-7564 • Fax (607) 648-7560

September 7, 2006

██████████
Binghamton Regional Office
Office of the State Comptroller
State Office Building, Room 1702
44 Hawley Street
Binghamton, NY 13901-4417

Dear ██████████:

The Superintendent of Schools of the Chenango Forks Central School District, Robert Bundy, has designated me to respond to the findings and recommendations from the audit report entitled "Internal Controls Over Capital Assets" issued by your office.

As a result of the audit, the district has already taken steps to improve the internal controls over capital assets. An independent appraisal was performed by Industrial Appraisal Co. in May 2006. The appraisal included a physical inventory and tagging of equipment items. The report was issued in July 2006, and the results were reconciled to existing fixed asset records for inclusion in the district's financial statements. The updated records were provided to your office at the exit conference held on August 28, 2006. The district will strive to improve the internal controls over capital assets by addressing each finding and recommendation provided by your office.

Internal Controls Over Capital Assets

Capital Asset Policy – The Board of Education has not adopted a capital asset policy. The Board of Education will adopt a capital asset policy that will set forth the duties, records and control procedures required to adequately safeguard capital assets.

Property Control Manager – The Board of Education has not appointed a property control manager. The Board of Education will appoint a property control manager to be responsible for tracking assets, establishing and monitoring control procedures in order to protect capital assets.

Asset Information – The district's inventory did not adequately include a complete description of the asset, including make, model, and serial number, identification number, purchase data, and asset location. The independent inventory conducted in May 2006 includes the required information. The newly appointed Property Control Manager will continue to update the records to include all the required information.

Annual Physical Inventory – The district's records are not up-to-date. As we stated above, an independent physical inventory was performed in May 2006. The district has also purchased the

Visual FACS software program from Industrial Appraisal Co. to update assets as they are purchased. The software lists purchase date, purchase amount, tag number, location by room and building to more easily facilitate an annual physical inventory. The Property Control Manager will conduct an annual physical inventory of capital assets and investigate any discrepancies.

Unique Identifier – The assets need an assigned identification number and should be tagged. As part of the appraisal conducted in May, each asset was affixed with a bar-code tag. We will continue to tag assets purchased in the future to allow each asset to be readily identified.

Enclosed is a copy of the fixed asset physical inventory conducted on May 4, 2006 by Industrial Appraisal Co. Should you have any questions concerning our response, please contact either Robert Bundy at 607-648-7543 or myself at 607-648-7538.

Sincerely,



Kathryn L. Blackman
School Business Executive

Enclosure

C: Robert Bundy
Board of Education
Audit Committee

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. 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 objective and scope by selecting for audit that area most at risk. We selected Capital Assets for further audit testing.

Within the capital assets area we focused our attention on assets purchased within our audit period of July 1, 2004—February 16, 2006. We examined the following records and reports and traced transactions in an effort to determine if capital assets were protected against loss, waste and misuse and to identify the possible effect if they were not adequately safeguarded:

- Disbursement records
- Property listing reports
- Claims packages

We selected 27 assets from disbursement records to physically locate and determine if they were included on the fixed asset inventory record and whether such record had adequate information to identify the assets selected.

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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AND ECONOMIC DEVELOPMENT

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