



East Ramapo Central School District Internal Controls Over Capital Assets

Report of Examination

Period Covered:

July 1, 2004 - December 20, 2005

2006M-58



ALAN G. HEVESI

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State of New York Office of the State Comptroller

Division of Local Government Services and Economic Development

August 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 East Ramapo 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 East Ramapo Central School District (District) is located in the Towns of Ramapo, Clarkstown, and Haverstraw. The District is governed by the Board of Education (Board) which comprises nine 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 14 schools in operation within the District, with approximately 8,700 students attending these schools. The District has a workforce of approximately 1,500 employees. The District's budgeted expenditures for the 2004-05 fiscal year were approximately \$163.5 million, funded primarily with State aid, real property taxes and grants.

The District's audited financial statements included capital assets with a total original cost of \$85 million at June 30, 2005 of which \$76 million was for land, buildings, improvements other than buildings, and construction in progress; \$9 million was for equipment. Thus, the District's inventory of capital assets represents a significant investment of resources.

Objective

The objective of our audit was to review capital asset policies and procedures. Our audit addressed the following question:

- Are internal controls over capital assets 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, 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 December 20, 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 have already initiated 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.

Internal Controls Over Capital Assets

A sound system of internal controls helps ensure that District assets are adequately protected against loss, waste, and misuse. Capital assets are those that have a useful life of more than one year and include such things as land, buildings, furnishings, vehicles and electronic equipment such as computers. District officials must ensure that capital assets are protected from loss, that their value is maintained, and that they are used effectively. Capital asset protection is enhanced when quality records are maintained. Complete and accurate accounting records for capital assets are also necessary for proper financial reporting in conformity with generally accepted accounting principles. These records help establish accountability by fixing responsibility for the control and custody of District property, and they provide assurance that such property is safeguarded. Furthermore, these records can be useful in determining the adequacy of insurance coverage, preparing claims for insurance recoveries, and planning for future replacements.

Internal controls related to capital assets and inventories are inadequate to protect District assets against loss, waste and misuse.

The District has not established a written policy and set forth the duties, records, and procedures to ensure that capital assets are properly accounted for and safeguarded. Additionally, the District has not appointed a property control manager to track capital assets and ensure the accuracy and completeness of District asset records.

The District does not have a complete, accurate, and up-to-date record of capital assets. A physical inventory is taken only once every five years, and is updated annually for acquisitions but not for disposals. During the ensuing period until the next physical inventory, all costs and accumulated depreciation on capital assets continue to be carried in the capital assets control accounts even though some of the assets have been retired, sold, or otherwise disposed of.

We attempted to physically verify the existence and location of a selection of assets from the District's inventory listing. From a sample of 57 items, we could not initially locate five items. These items were eventually located with assistance from District personnel, or were found to be discarded.

One of these five items was a golf cart that was used to provide transportation to physically challenged students and which had been deemed mechanically unsafe and discarded by custodians without notifying the business office. The four remaining items were two pianos, an exercise machine and a salt spreader. These items either were untagged, not properly described in the asset listing, or were not in the location indicated in the asset listing.

As a result of these weaknesses in internal controls and recordkeeping, the District's capital asset records and related financial reports are unreliable and management cannot be assured that all equipment is accounted for.

Recommendations

1. The Board should establish a comprehensive, written, capital asset policy that identifies management's objectives and the duties, records and procedures required to achieve these objectives. This policy should also establish the minimum value of assets to be tracked for departmental inventory control.
2. District officials should designate a property control manager to be responsible for maintaining the capital asset inventory records. Individuals having custody of assets should not be given access to property control records.
3. The Board should ensure that a complete physical inventory for all District capital assets is taken to establish a correct, current, starting inventory record.
4. Acquisitions, dispositions and transfers or relocations of assets should be recorded as they occur, with each piece of property identified through the use of an asset tag.
5. District officials should require that a physical inventory count of assets is conducted at the departmental level at least annually. Any discrepancies between the inventory count and records should be fully investigated.

APPENDIX A

RESPONSE FROM DISTRICT OFFICIALS

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



EDUCATION
EQUALITY
EXCELLENCE

Dr. Mitchell J. Schwartz
Superintendent of Schools

EAST RAMAPO CENTRAL SCHOOL DISTRICT

OFFICE OF THE SUPERINTENDENT OF SCHOOLS
105 South Madison Avenue, Spring Valley, NY 10977
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July 5, 2006

██████████
██████████
Office of the State Comptroller
110 State Street
Albany, New York 12236

Re: **East Ramapo Central School District**
Internal Controls Over Capital Assets
Report of Examination
Period Covered July 1, 2004 - December 20, 2005
2006M-58

Dear ██████████:

I am writing on behalf of the Board of Education of the East Ramapo Central School District in response to the Report of Examination as more fully referenced above.

On June 12, 2006, representatives of the School District including myself met with ██████████ with the Division of Local Government Services and Economic Development, for an exit conference regarding the Report of Examination. As we discussed with ██████████, we found that the Report of Examination was fair and balanced and accurately identified a weakness in our internal controls over fixed assets. As to that finding, well prior to the date of the exit conference, we took the necessary steps to correct that deficiency. By letter dated May 31, 2006, the Board of Education's attorney sent ██████████ 16 specific documents, including policies and regulations, addressing various issues raised by ██████████ during the time he was here for the actual audit which he then reviewed with us during the exit conference.

Among the policies and regulations that have been adopted by the Board of Education, and which have now been put into place, is one captioned **FIXED ASSETS AND CONSUMABLE INVENTORIES**. Beyond that, we held in-service training on May 31, 2006 for specific department heads regarding fixed assets and consumable inventories. We have designated a property control manager and each department head has now been properly trained.

Although we have already initiated our corrective action plan, we would appreciate your advising us whether anything further is necessary in that regard. While we acted

██████████
July 5, 2006

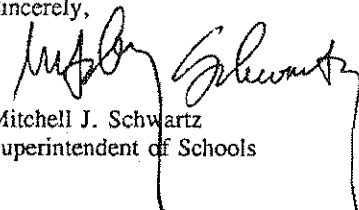
Page 2

promptly to institute corrective measures, I would be remiss if I did not mention that during the exit conference, ██████████ stated that there was no evidence of any waste, fraud or abuse on the part of the School District.

Finally, as I commented during the exit conference, while ██████████, who periodically was accompanied by colleagues, spent three months with us during which time he and they were extremely thorough in their review of myriad documents, we appreciate the professional manner in which the audit was conducted and the feedback that was provided to us.

Please let us know whether there is anything further that requires our attention.

Sincerely,


Mitchell J. Schwartz
Superintendent of Schools

MJS\rz

cc: Board of Education
Mr. James Rose
Ms. Patricia Beltramo
Stephen M. Fromson, Esq.

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 inventories for further audit testing.

We focused our attention on purchases and disposals of computer and electronic equipment, buildings and grounds machinery as well as kitchen and exercise equipment based on the perceived risk associated with each.

Our examination included the following records and reports in an effort to determine if capital assets and inventories were protected against loss, waste and misuse and to identify the possible effect if they were not adequately safeguarded:

- Property Inventory and Accounting Cost Record
- Vendor Transaction Report
- Financial Statements
- Budgetary Account Activity report
- Schedule of Capital Asset expenditures
- Budget Status Report

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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