



Greater Johnstown School District Internal Controls Over Capital Assets and Purchasing

Report of Examination

Period Covered:

July 1, 2004 - May 5, 2006

2006M-130



ALAN G. HEVESI

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
Maintenance of Inventory Records	7
Security Over Computer Facilities	9
Recommendations	9
INTERNAL CONTROLS OVER PURCHASING	11
APPENDIX A Response From District Officials	13
APPENDIX B Audit Methodology and Standards	16
APPENDIX C How to Obtain Additional Copies of the Report	17
APPENDIX D Local Regional Office Listing	18

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 Greater Johnstown 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 Greater Johnstown School District (District) is located in Fulton County. 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. Responsibilities relating to the District's finances, accounting records and reports are largely those of the Business Administrator. All financial transactions are processed by the District Business Office using the software package Finance Manager. The District's financial statements undergo an annual audit by an independent public accounting firm.

There are six schools in operation within the District, with 2,026 students and 312 employees. The District's budgeted expenditures for the 2005-06 fiscal year were \$22,801,764. These costs were funded primarily with State aid, real property taxes and grants. The District's financial statements for its fiscal year ended June 30, 2005 reported capital assets with a total net book value of \$10,262,421.

Objective

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

- Are internal controls over capital assets and purchasing designed appropriately 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. 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 areas of capital assets and purchasing. Therefore, we examined the internal controls over the District's capital asset management and purchasing practices for the period July 1, 2004 to May 5, 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

The District's capital assets, which include electronic equipment and audio and video equipment, represent a significant investment of District resources. It is the responsibility of District officials to ensure that capital assets are protected from loss and are used effectively. However, we could not locate 56 percent of sampled computers and electronic equipment listed on Business Office records, and 22 percent of sampled computers on Information Technology Department records. The total value of the unaccounted for assets was \$32,385.

These problems exist because District officials did not enforce compliance with the District's capital asset policy, which requires annual physical inventories, and the resolution of any discrepancies found. In addition, the District did not maintain comprehensive and up-to-date asset records. We also found the District failed to lock computer labs when not in use. As a result, District officials do not have reliable information about and control over the computers and electronic equipment the District owns. Further, inadequate records and poor physical security increase the risk of loss, theft or misuse of these District assets.

Maintenance of Inventory Records

Ideally, one person (the property control manager) should have overall responsibility for monitoring capital assets and for ensuring the accuracy and usefulness of capital asset inventory records. The detailed records maintained by the property control manager or other designated individuals must be complete, accurate and up-to-date. Each piece of moveable property should have a record that includes a description of the item including the make, model and serial number of the asset, the District's assigned identification number, when appropriate, the date, price, vendor, and voucher number for the purchase, the location of the asset, and the source of funds used to purchase the item.

The District adopted a fixed asset policy in April 2001 that makes the Business Office responsible for the performance of an annual inventory and appraisal of District property, equipment and material. The policy further requires that any discrepancies between inventory results and the District's property records on file should be traced and explained. The District contracted with a private firm to prepare a comprehensive inventory record of capital assets, including computers and electronic equipment, as of June 30, 2000. According to District officials, the inventory record is updated periodically throughout the year by a Business Office employee to account for

equipment purchased during the year. The District's Information Technology (IT) Department also maintains a record of computer inventories. However, the District does not reconcile IT Department and Business Office inventory records.

We selected a sample of computer purchases made during the period July 1, 2004 through May 5, 2006 to determine if all computers purchased during that period were included in either of the District's computer inventory records. However, the purchase orders and the related claims did not include specific information about the computers that were purchased. Without unique identification data, we were not able to determine if all computer purchases made during the scope of our audit were included in the District's computer inventory records.

In lieu of tracing computer purchases to asset inventory records, we tested to determine whether computers and electronic equipment, as shown on District records, were located at the sites listed in the records and tagged with the correct asset identification tag. We selected a sample of 50 computers and 30 pieces of other electronic equipment listed on the Business Office's computer and electronic equipment inventory records, and a sample of another 50 computers listed on the IT Department's computer inventory records. As illustrated by our test results below, we found the District is not maintaining complete, accurate and up-to-date inventory records of computers and electronic equipment.

- Of the 50 computers sampled from the Business Office's computer inventory records, 25 computers were not found at the listed school location. The acquisition value of the 25 computers totaled \$25,731.
- Of the 30 pieces of electronic equipment that were sampled from the Business Office's electronic equipment inventory records, 22 items were not in the listed school location, although 2 of the 22 items were found in other locations. The total acquisition value of the 20 pieces of electronic equipment totaled \$6,654.
- Of the 50 computers sampled from the IT Department's records, 11 computers were not at the listed location. We were not able to determine the value of the 11 computers because the IT Department's records do not include the acquisition costs.

The appraisal of District capital assets in 2001 reported that the District owned 1,051 computers and various pieces of electronic equipment, which included printers, TVs, VCRs, cameras, and projectors, with a total acquisition value of \$1,871,387. However, we could not accurately determine the number of computers and other pieces of electronic equipment that the District owned at the time of our audit since the District does not periodically update the inventory to remove items that have been disposed of.

The District should maintain comprehensive records of its capital assets, including District computers and electronic equipment. The accuracy and completeness of these records should be verified by annual inventory counts and the reconciliation of different sets of records for the same items – steps required by the District’s current policy. Without reliable information about the computers and electronic equipment the District currently owns, these assets are at increased risk of loss, theft or misuse.

Security Over Computer Facilities

Proper safeguards should be developed and implemented to ensure the District’s computer storage facilities and labs are secure at all times when not in use. We inspected all 11 computer labs located within the District to verify that the labs are locked and secured when unattended. Each of the computer labs contained at least 16 computers. Of the nine computer labs that were not in use during our inspection, we found that three labs were unlocked with no staff present. The lack of adequate security over computer labs leaves the District at risk of having computers misused, damaged or stolen.

Recommendations

1. The Board should establish procedures to ensure that the District’s fixed asset policy is adhered to as it relates to the maintenance of adequate inventory records, particularly the maintenance of records to adequately document the acquisition, identification, assignment and disposal of assets.
2. District officials should complete and maintain a comprehensive inventory of capital assets, including computers and electronic equipment. Physical inventories should be conducted periodically and the results compared with the information in the inventory records. Any differences should be promptly investigated and resolved.
3. The District should establish policies and procedures to ensure that all computer storage facilities and labs be locked and properly secured when unattended.

4. District officials should investigate the unaccounted for equipment we identified in this report, and take steps to recover these assets, as necessary and appropriate.

Internal Controls Over Purchasing

An appropriate system of controls over purchasing consists of policies and procedures intended to provide reasonable assurance that, among other things, the District is using its monies in the most prudent and economical manner when procuring goods and services. We found that the District's internal controls over purchasing were appropriately designed and operating effectively to ensure that resources were being used in an efficient and appropriate manner.

While reviewing the internal controls over purchasing, we determined the process in place is as described below.

- District employees submit a requisition form to their supervisor for an item to be purchased. The supervisor (or the supervisor's secretary) approves the purchase, if deemed appropriate, and enters the approved requisition in the District's computer system.
- The requisition is reviewed and approved by the Business Administrator and then by the Superintendent.
- The account clerk converts the requisition to an approved purchase order, and the purchase is made.
- The employee receiving the goods verifies that all goods were received in the proper condition and quantity. The employee's supervisor initials and date stamps the receipt/invoice and sends it to the accounts payable clerk in the business office.
- The claims auditor receives the receipt/invoice from the clerk, matches the purchase order to the accompanying invoice, and date stamps the invoice to indicate the purchase has been verified and approved for payment.
- The accounts payable clerk processes the checks through the computer system, which prints the Superintendent's signature on the checks. Warrants are prepared and approved by the Superintendent, the Business Administrator and the claims auditor. The checks are then disbursed.

We examined 100 claims to determine if purchase orders are initiated by the submission of a requisition form, purchase orders are approved before purchases are made, and purchases being made are for appropriate District purposes. We found no significant deficiencies in the claims we examined.

APPENDIX A

RESPONSE FROM DISTRICT OFFICIALS

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

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Business Administrator

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November 21, 2006

[REDACTED]
[REDACTED]
Office of the State Comptroller
One Broad Street Plaza
Glens Falls, N. Y. 12801

Dear [REDACTED]:

This letter is in response to your letter of October 31, 2006 regarding the preliminary draft report of the Office of the State Comptroller's recent examination of the Greater Johnstown School District-Internal Controls over Capital Assets and Purchasing.

The report identified two areas of concern. They were the maintenance of inventory records and security over computer facilities. Those items are summarized below along with the District's response.

1. Maintenance of Inventory Records

The report noted that the inventory records for computers and electronic equipment were not up-to-date. The three "test results" cited in the report and the current status of those items are as follows:

25 of 50 computers sampled from the Business Office records were not found at the listed school location – The District has software that allows it to track the location on its network of its newer computers. Twelve of the 25 were located using this software. Three older computers were discarded. The remaining 10 are older computers that cannot be located using the network software. The IT Department is currently updating its inventory of computers, noting their current locations, and is updating the District's fixed asset system.

20 of 30 electronic items were not found at the listed school location- Most of these items are resources that are shared among a number of classrooms. At the time of the acquisition the location recorded in the District's fixed asset system is the location where the item is delivered. The person responsible for the item, such as the building principal or librarian, keeps track of its location. For example, at the Knox Junior High School, the librarian keeps track of the inventory of equipment on software at her desk. The librarian at Knox quickly located 7 of the 8 items listed as not at listed location. The eighth item had been discarded. Of the 20 items not located

during the examiner's visit, 18 out of 20 were located. Most were located where they had been listed. The fixed asset system has been updated for those items in new locations. The two remaining items, a VCR purchased in 1995 and VCR purchased in 1998 have been discarded and removed from the District's fixed asset inventory.

11 of 50 computers on the IT Department records were not at the listed location – Ten computers were found in other locations, six of which were located using the network software. We anticipate that the remaining one will be located by the IT Department during the inventory update currently underway.

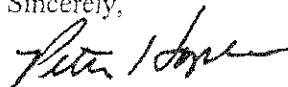
The audit also noted that the examiners were unable to link sample purchase orders with the items that were purchased as the purchase orders did not have specific identifying information about the items purchased. The District's IT Department has changed its procedure and is entering identifying information on the District's fixed asset system before items are placed in service. Copies of the identifying information including serial number, model, and asset inventory number will be attached to the purchase order.

2. Security Over Computer Facilities

The report noted that three of nine computer labs not in use were unlocked and unattended at the time of the inspection. The District has instructed its teaching staff to not leave the labs unattended and to lock the computer labs when not in use. In addition, the custodians in each building are checking the computer labs to ensure that they are locked when not in use.

The District will conduct an annual inventory of its fixed assets prior to the end of each school year. The Business Office will periodically review and update the procedures for monitoring fixed assets at the building level and the process for disposing of surplus items. In addition, with the change in procedures for recording incoming computer equipment, the District will maintain appropriate control over these assets.

Sincerely,



Peter Hopke
Business Administrator

cc: John S. Whelan, Superintendent
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, and capital assets.

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 review. We then decided upon the reported objectives and scope by selecting for audit those areas most at risk. We selected purchasing and capital assets for further audit testing.

Our audit objective related to purchasing involved verifying that requisitions were required to initiate all purchase orders, that purchase orders were processed and approved prior to the purchase being made, and that purchases were for appropriate district business. To achieve this objective, we reviewed a sample of 100 claims to determine if the District had implemented adequate procedures and safeguards over these particular areas of the purchasing function.

Our audit objective related to capital assets was to determine if there were adequate controls and procedures in place to safeguard the assets against theft and abuse. We reviewed the inventories that the District maintained, and verified the accuracy of the information maintained within the records.

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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