



# Kinderhook Central School District Internal Controls Over Capital Assets and Inventories

## Report of Examination

Period Covered:

July 1, 2004 - February 6, 2006

2006M-94



ALAN G. HEVESI

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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**

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 district's 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 Kinderhook Central School District — Internal Controls over Capital Assets and Food Inventories.

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 the 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 Kinderhook Central School District<sup>1</sup> (District) is located in the Town of Kinderhook, Columbia 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.

There are five school buildings in operation within the District, with 2,276 students attending these schools during the 2004-05 school year. The District has a workforce of approximately 630 employees. The District's budgeted expenditures for the 2005-06 fiscal year were approximately \$30 million, funded primarily with State aid, real property taxes and grants.

The President of the Board is the Chief Fiscal Officer of the School District. However, many of the financial management functions of the District are the responsibility of the Business Administrator and the District Treasurer. The Superintendent, with the assistance of District managers, must establish and maintain an internal control structure to ensure that District assets are safeguarded against loss from unauthorized use or disposition, and that acquisitions are recorded properly in the financial records of the District.

The District's audited financial statements included capital assets (e.g., furniture, equipment, and computers) with a total net book value of approximately \$4 million at June 30, 2005. Thus, the District's inventory of capital assets represents a significant investment of resources. The District also is responsible for safeguarding consumable inventories such as food used in the cafeterias.

## Objective

The objective of our audit was to determine if controls over capital assets and food inventories are appropriately designed and operating effectively. Our audit addressed the following related question:

- Has the District established adequate internal controls to protect capital assets and food inventories against loss, waste, and misuse, and are those controls operating effectively?

<sup>1</sup> Also known as the Ichabod Crane Central School District.

**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 and food inventory areas and therefore, we examined internal controls over capital assets and food inventories for the period July 1, 2004 to February 6, 2006. We examined actual food service inventories for the period July 1, 2004 through February 10, 2006.

We conducted our audit in accordance with Generally Accepted Government Auditing Standards. 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 plan 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 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.

## Capital Assets and Food Inventories

If a sound system of internal controls is in place, District assets should be 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. Assets such as laptop computers, printers, and cameras are more susceptible to loss or misuse and require stronger controls to protect them.

The District's audited financial statements included capital assets (e.g., furniture, equipment, and computers) with a total net book value of approximately \$4 million at June 30, 2005. Thus, the District's inventory of capital assets represents a significant investment of resources.

Capital asset protection is enhanced when quality records are maintained. Detailed records help establish accountability and allow for the development of additional controls and safeguards. Maintaining an inventory of capital assets helps to safeguard assets, helps to determine the adequacy of insurance protection, provides a means of planning for future replacement and fixes responsibility for care and safeguarding of equipment and property. An annual physical inventory count of capital assets is an important control for monitoring the accuracy of the asset records and determining the existence and condition of the District's assets.

Ideally one person (the property control manager) should have overall responsibility for tracking capital assets, and for the accuracy of the asset records. The detailed records maintained by the property control manager 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 make, model and serial number); the District's assigned identification number; the date, amount, vendor and claim number for the purchase; the department having custody and the location; and the source of funds used to purchase the item.

Consumable inventories are those assets that are depleted on a regular basis and may include a variety of items such as food used in District cafeterias. As with capital assets, consumable inventories should be protected against loss, waste, and misuse. Accordingly, consumable

inventories, such as food for school breakfast and lunch programs, should be adequately safeguarded and periodically inventoried. We found that District officials have not established adequate controls to protect capital assets and food inventories against loss, waste, and misuse. As of the end of our fieldwork, the District had not developed a capital asset policy, nor set forth the duties, records and procedures required to achieve adequate internal control. Furthermore, the District has not appointed a property control manager to track capital assets and ensure the accuracy and completeness of District asset records. Because District officials have not taken proactive steps to put controls in place to update and verify inventory listings, we were unable to locate certain items found on those listings or found on District vouchers. We also found that adequate controls were not in place for the District's food inventory.

## **Capital Assets**

We found that a District-wide inventory listing of capital assets was last completed for the District in 2001, the last time a physical inventory was performed. District officials indicated that funds were made available through a budget appropriation for the 2005-06 school year for a complete District-wide physical inventory but the appropriation was taken out after the budget failed. Thus, the District did not have an up-to-date inventory listing of all capital assets. However, we found that District's Information Technology (IT) Department maintains a separate database listing of computer equipment assets. This inventory database is updated and equipment is tagged for identification whenever it is received by the Department. District officials also provided us with an inventory listing of musical instruments. We also found that the District has not appointed a property control manager who is responsible for tracking and accounting for capital assets.

In the absence of the District having a complete updated official asset record, we utilized departmental listings maintained by the IT and Music Departments to physically inspect selected assets. Our testing involved examining the IT Department's computer equipment inventory, the musical equipment inventory, vendor payment histories, and claim packages. We selected items from the inventory listings and claim packages to verify their existence and to determine the accuracy of the District's records.

We selected 25 pieces of electronic equipment (e.g. computers and printers) from the IT Department inventory list and four items from the musical equipment inventory for verification of existence. We selected 56 items from the District's voucher and donation records for verification that items were received. The 56 items included items

such as cell phones, printers, small tools, laptops, printers, TVs, DVD players, and digital cameras. While we were generally able to trace all equipment selected, we found the following in relation to the different inventory listings and records:

IT Department Inventory List (25 items selected)

- We found six items in a different location than the location listed.
- We were unable to locate one laptop computer.

District officials indicated that the laptop may have been a personal laptop that was inadvertently inventoried as a District asset as the vendor, from which the item would have been procured, does not have a record of this computer being sold to the District.

Musical Equipment Inventory (four items selected)

- We located all four items.

District's voucher and donation records (56 items selected)

We could not locate the following items:

- One digital camera
- One DVD/VCR combination unit
- One DVD recorder/VHS combination unit
- One 27-television

District officials attempted to locate the missing items but were unable to do so and had no explanation why these items could not be located.

Without an accurate recording of capital assets, District officials cannot be sure that assets are being adequately protected against loss, waste or misuse. Furthermore, District officials cannot be sure if assets are being removed from the records or moved to a different location with the appropriate approvals and authority.

## **Food Inventories**

In order to safeguard food inventories, the Board and District management need to establish policies and procedures that clearly assign responsibility for inventory control and describe how officials should safeguard food in day-to-day operations. In addition, the Business Administrator or someone designated by the Board should conduct periodic analytical reviews of food purchases and usage to disclose any unusual items or trends that might require investigation.

The District has five cafeterias that provide approximately 20,000 meals to students and staff per month. On a monthly basis, the Food Service Manager works with the head cooks to develop cafeteria menus for the following month. Food purchase orders are prepared

by the head cook and submitted to the Food Service Manager who reviews and revises them as appropriate. Purchased food is placed on one order for delivery on Mondays, and delivered to each location. An inventory of government commodity foods is taken and reported monthly and a complete inventory of all food is taken at the end of the school year.

Our audit disclosed that the District does not have a policy or adequate procedures in place to safeguard food inventories. Without a policy, the District runs the risk of not being able to accurately account for food purchased and sold, and not being able to protect the District's food assets from spoilage and/or misappropriation.

During the course of our audit, the Food Service Manager took active positive steps to correct some of the deficiencies in the District's internal control structure as they relate to inventories. The Food Service Manager initiated tracking of the District's consumable goods inventory by completing a monthly food item count in the school cafeterias.

## **Recommendations**

1. District officials should develop a comprehensive capital asset policy. This policy should communicate management's objectives and set forth the duties, records and procedures required to achieve these objectives.
2. District officials should designate a property control manager to be responsible for tracking capital assets and ensuring the accuracy and usefulness of the District's asset records.
3. District officials should require that a physical inventory count of assets be conducted at least annually. Any discrepancies noted between actual and recorded inventory items should be fully investigated.
4. District officials should establish policies and procedures to address the acquisition, storage, and use of food inventories.
5. The Business Administrator, or someone designated by the Board under the guidance of the Board's Audit Committee, should perform periodic analytical reviews to reveal any unusual food inventory items or trends that might require further investigation.

## **APPENDIX A**

### **RESPONSE FROM DISTRICT OFFICIALS**

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



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September 19, 2006

████████████████████  
Office of the State Comptroller  
22 Computer Drive West  
Albany, NY 12205

Dear ██████████:

Based upon your draft report presented to the Board of Education and the District Administration on September 1, 2006, please accept this response per the written guidelines issued by your office.

The District recognized the need to improve the fixed asset tracking mechanisms present in the District prior to the most recent examination for the Office of State Comptroller. Prior to 2001, a half-time position existed in the business office to track the fixed assets and to maintain the inventory records for the district. That position was eliminated at that time in order to reduce the budget.

In the Fall of 2004, the District determined that a complete independent physical inventory and reconciliation would be the best method to estimate the value of fixed assets as recommended in the Governmental Accounting Standards Board Pronouncement No.34 (GASB 34). Proposals were solicited shortly thereafter from qualified vendors for a complete on-site inspection and appraisal of the following:

- all buildings;  
site improvements;
- fixed equipment;
- furniture and fixtures;
- machinery;
- moveable equipment.

Included under this scope of work are all items with an individual replacement cost of \$100 or greater and all items of technology/electronics without regard to replacement cost. In addition to the above, the district required as part of this project the delivery of a recognized third party software system designed specifically to monitor fixed assets.

MISSION STATEMENT: In our quest for excellence, the Ichabod Crane Central School District is dedicated to preparing all students to meet the challenges of our future and to appreciate the value of their own lives by nurturing each individual's unique talents, instilling a desire for lifelong learning, and fostering a strong spirit of community.

In preparation for the new inventory tracking system, the District established a central receiving location; in part to address matters pertaining to asset control and to enhance security at the District's other locations. Funds to implement said plans were placed into the 2005-06 budget. Upon failing at referendum in May 2005, the funds for this comprehensive physical fixed asset inventory system were cut from the budget in order to reduce the tax levy in the revised 2005-06 budget. Funds were placed into the 2006-07 budget to fund an inventory. A physical inventory of district assets was taken by the Director of Facilities and the Food Service Manager. Although not named a "property control manager," the Food Service Manager, the only managerial employee with available time in the work schedule, was assigned the additional job responsibility of accounting and tracking the District's fixed assets in August 2005. The Food Service Manager and the Director of Facilities took a District-wide physical inventory count during the period from December 19, 2005 through January 20, 2006. Reconciliation between the prior inventory listing and the current actual inventory is underway. There is also a cooperative inventory program under development, which might allow for reduced costs of implementation while still improving the control environment for fixed assets.

We cannot dispute that the District did not produce the four of 56 items requested by the OSC Examiners at the time they were requested. Other than to note that the assets were not readily produced and tracked, the Examiners made no further comment. In order to improve that level of control, the District will develop a more formalized real-time accounting mechanism for those assets deployed on a daily or short-term basis in the future.

Also mentioned in the body of the OSC report was the manner in which the District accounted for food inventories.

Regarding food inventories:

- 1). All food items were inventoried at the end of each fiscal year.
- 2). A monthly inventory of surplus government foods was taken by the Head Cook at month's end on a preprinted guide. This information was forwarded from each kitchen to the Food Service Director. The information was then reviewed and combined into a District-wide inventory form for surplus foods.
- 3). We had no formalized procedure in place for a monthly physical inventory for each kitchen. The compensating control was that each building placed

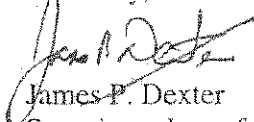
food orders only with the Food Service Director. Inasmuch as the Food Service Director manages the centralized ordering, created the menus for all buildings, had a physical inventory at the prior year end, we believe that there was an element of control. The Director reconciled the orders from each building against the published district menu plan.

Based upon the input of the Examiners from the Office of State Comptrollers during the recent audit, we have revised our procedures to include a monthly physical inventory of all food items.

The Examiners recommend that the District develop a comprehensive capital asset policy. While a procedural review has been ongoing on this topic, formalizing the new entity-wide practice into a Board policy and matching administrative regulation is something that can be recommended to the Board Policy Committee for its consideration and action. In addition, formalizing the role of the "property control manager" by the Board of Education can be considered at the same time.

If you should have any questions regarding this response, please feel free to contact either of us at (518) 758-7575.

Sincerely,

  
James P. Dexter  
Superintendent of Schools

  
Gary D. Bagnato  
President, Board of Education

JPD/GDB:nb

## 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 likely 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 of Education minutes and financial records and reports. In addition, we used electronic auditing software to help us evaluate the District's computerized financial operations. With the help of District personnel, 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 where the potential risks that fraud, theft and/or professional misconduct could occur. Based on that evaluation, we determined that controls appeared 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.

Within the capital assets and inventories area we focused our attention on food, computer/electronic equipment purchases and donations, and fuel purchases based on the perceived risk associated with each.

We examined 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:

- Fixed Asset Inventory Listing
- District Information Technology Listing
- Listing of Musical Instruments
- Vendor Payment History
- Warrants
- Financial Statements
- Claim Packages
- Record of Breakfast and Lunches Sold for 2002-03, 2003-04, 2004-05, and 2005-06
- School Lunch Physical Inventory numbers at June 30, 2005 inventory
- Gasoline purchase records for 2004-05 and 2005-06
- Mileage logs for July and October of 2004-05

We conducted our audit in accordance with Generally Accepted Government Auditing Standards. 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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