



# Laurens Central School District Internal Controls Over Purchasing and Capital Assets

Report of Examination

Period Covered:

July 1, 2004 - December 19, 2005

2006M-113



ALAN G. HEVESI

# Table of Contents

	<b>Page</b>
<b>AUTHORITY LETTER</b>	3
<b>INTRODUCTION</b>	5
Background	5
Objective	5
Scope and Methodology	6
Comments of District Officials and Corrective Action	6
<b>DEFICIENCIES IN CONTROLS OVER PURCHASING</b>	7
Compliance with the Procurement Policy	7
Controls Over Claims Audit	8
Recommendations	9
<b>DEFICIENCIES IN CONTROLS OVER CAPITAL ASSETS</b>	10
Recommendation	11
<b>APPENDIX A</b> Response From District Officials	12
<b>APPENDIX B</b> Audit Methodology and Standards	14
<b>APPENDIX C</b> How to Obtain Additional Copies of the Report	16
<b>APPENDIX D</b> Local Regional Office Listing	17

# State of New York Office of the State Comptroller

---

---

## Division of Local Government Services and Economic Development

November 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 Laurens Central School District — Internal Controls Over Purchasing and 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 Laurens Central School District (District) is located in the Towns of Laurens, Hartwick, Milford, Morris, New Lisbon and Otego, Otsego 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 is one school in operation within the District, with approximately 472 students and 94 employees. The District's operating expenditures for the 2004-05 fiscal year totaled \$5.4 million for the general fund, \$190,000 for the School Food Service Program and approximately \$300,000 for the special aid fund. These expenditures were funded primarily with State aid, real property taxes and grants.

One of the Board's managerial responsibilities is the establishment of a system of internal controls over purchasing designed to provide reasonable assurance that all District claims are properly audited and approved prior to payment and that District policies and procedures are followed. District officials must also ensure that capital assets are safeguarded from loss, that their value is maintained, and that they are used effectively.

## Objective

The objective of our audit was to determine if school District officials were properly safeguarding their financial resources. Our audit addressed the following related questions:

- Has the District established adequate internal controls over purchasing and are these controls appropriately designed and operating effectively?
- Has the District established adequate internal controls to protect capital assets against loss, waste and misuse, and are these controls appropriately designed and operating effectively?

**Scope and  
Methodology**

During this audit, we examined internal controls over purchasing and capital assets for the period July 1, 2004 to December 19, 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 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 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.

## Deficiencies in Controls Over Purchasing

The Board is responsible for ensuring that an effective system of internal controls is in place over the District's purchasing function through policies and procedures that require all claims to be properly audited and approved prior to payment. Further, the policies and procedures should ensure that only goods and services of acceptable quality are obtained at the lowest possible cost. If one or more elements of proper internal controls are lacking or not functioning properly, accountability over the District's financial resources is greatly diminished.

We found significant weaknesses regarding compliance with the District's adopted procurement policy and in the District's existing internal controls over claims auditing.

### **Compliance with the Procurement Policy**

The objectives of the District's procurement process should be to obtain services, materials, supplies and equipment of the desired quality, in the quantity needed, at the lowest price in compliance with applicable Board policies and legal requirements. The Board adopted a procurement policy requiring District officials to obtain verbal or written quotes from vendors for purchase contracts of more than \$500 and for public works contracts of more than \$1,000 but which are below statutory competitive bidding limits. The vendors giving the lowest quotes are to receive the purchase contracts. However, we found that this control was not always operating effectively because sometimes District staff made purchases without adhering to the procurement policy.

We judgmentally selected ten District purchases that fell within the procurement policy guidelines. We found seven purchases for such goods as field paint, musical instruments, lockers and equipment totaling \$9,194; and for three services for elevator maintenance, floor refinishing and fuel lines maintenance totaling \$7,452 which were purchased without any evidence that District personnel first obtained the required verbal or written quotes. District officials told us they were unaware of the policy and therefore did not require compliance with it even though it was included in the District's policy manual. District officials also told us that most of the policies in the District's policy manual were outdated and therefore most staff were not reviewing or complying with them.

Compliance with the provisions of the District’s written procurement policy helps ensure that competition is sought so that purchases may be made at the lowest possible costs. This documentation may also provide useful information to the Board and to the claims auditor when auditing claims. The failure of District officials and employees to follow the Board’s procurement policy increases the risk that goods and/or services may be acquired at more than the lowest possible cost.

### **Controls over Claims Audit**

An effective internal control system over purchasing should include the requirement that all claims be deliberately and thoroughly audited before they are paid. According to the District’s policy on Duties and Appointment of the Internal Claims Auditor, “valid claims against the District shall be paid by the treasurer only upon the approval of the claims auditor.” However, we found that this control was not always operating effectively because certain claims were not audited and approved by the District’s claims auditor.

During our audit, we found that all special aid fund disbursements totaling \$249,750 (excluding payroll) and disbursements from two trust and agency funds entitled “Pouring Rights”<sup>1</sup> and “Pepsi Fund” totaling \$1,813 and \$2,434, respectively, were not audited and approved by the claims auditor. The special aid fund is used to account for special projects or programs supported in whole or in part by Federal funds or State-funded grants. District officials established the Pouring Rights Fund to account for cash awards received from a vendor pursuant to a contract between the vendor and the District for the exclusive use of the vendor’s products. According to the contract, such cash awards are considered “discretionary income.” The Pepsi Fund was established to account for commissions earned on the sale of the same vendor’s products. Expenditures from the two trust and agency funds were made for such things as reimbursement for meals and refreshments for various school events and a car rental. Moneys received from the vendor should be recorded as general fund revenues. Furthermore, we found the audit process was deficient because vouchers were approved for payment without documentation of compliance with the procurement policy as indicated in the section above. The audit process should have revealed the failure to comply with the procurement policy.

The lack of effective internal controls over the audit and approval of claims increases the risk that claims may be paid which are improper charges against the District.

---

<sup>1</sup> Generally, “Pouring Rights” contracts grant exclusive rights to a vendor to supply beverages generally to all school district facilities, including sponsored functions.

## **Recommendations**

1. The Board should ensure that all District staff involved in the purchasing function are aware of the requirements in the District's procurement policy and comply with them. Specifically, District personnel should document that they have solicited and obtained quotes for potential purchases and should keep them on file as evidence that they have complied with the procurement policy.
2. The Board should ensure that the claims auditor is auditing all special aid fund claims.
3. Pouring Rights and Pepsi Fund revenues should be recorded in the general fund and be subject to the budgetary process.
4. The claims auditor should not approve payments that are not in compliance with Board policy.

## Deficiencies in Controls Over Capital Assets

Capital assets are those physical assets that have a useful life of more than one year and include such items as land, buildings and improvements, furnishings, vehicles and equipment such as computers and copiers. The District's inventory of capital assets represents a significant investment of resources with the District reporting approximately \$1.9 million in capital assets for land, buildings, and equipment as of June 30, 2005.

District officials must ensure that capital assets are safeguarded from loss, that their value is maintained and that they are used effectively. The Board can accomplish this by adopting suitable internal control policies and procedures requiring the maintenance of accurate and up-to-date capital asset records, conducting periodic inventories and establishing other safeguards. We examined the District's internal control policies and practices relating to capital assets and found them to be weak and even non-existent in certain instances.

While District officials did adopt an inventory policy to cover capital assets, it was inadequate because it did not specify when capital assets should be recorded in the District's inventory records, nor dollar limit thresholds of items to be recorded. The policy also did not require that District staff periodically perform physical inventories. Further, while District officials also adopted a policy on the sale and disposal of District assets, it did not provide for the removal of such assets from inventory records. Nor did the policy specify that the Board should approve all asset disposals. The asset disposal policy only addressed the sale of assets no longer of use to the District; items that were of no value to the District were to be disposed of to the advantage of the District, but were not required to be reported to the Board as retired.

As part of our audit procedures, we tested 25 capital assets judgmentally selected from the District's detailed property records to the locations indicated on those records. We found that:

- Seven items, at a cost of approximately \$16,850, could not be located at their recorded locations. These items consisted of four computers, a table saw, a projector and a laser printer. District officials told us later that the table saw, projector and laser printer had been disposed of, but not removed from the inventory record. We could not locate the remaining four computers.

- Three assets were in a different location than what was indicated on the District's detailed property records.

Although District officials performed a physical inventory of all audio visual and computer equipment in July 2005, and all teachers at the end of the school year performed a physical inventory of all assets in their classrooms, the list of items that were part of the physical inventories were not compared to the master inventory listing prepared and maintained by the Treasurer. The last complete physical inventory was done in April 2003. Had officials required regular physical inventories be performed (preferably annually) inventory records would be more accurate and up-to-date.

The lack of accountability over capital assets is illustrated by the difficulty of finding and physically viewing recorded capital assets and finding items in locations other than where indicated in the detailed records. Further, the disposal of capital assets without updating the inventory records with related information created inaccurate and outdated inventory records. As a result, there is an increased risk of loss, theft or misuse of District owned assets.

## **Recommendation**

5. The Board should enhance their capital assets internal control policies and procedures to ensure that they include guidance on when capital assets should be appropriately recorded, set dollar limit thresholds of items to be recorded, require that periodic (annual) inventories be performed and any differences be resolved and lastly, that disposal of capital assets be completely addressed.

## **APPENDIX A**

### **RESPONSE FROM DISTRICT OFFICIALS**

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

# LAURENS CENTRAL SCHOOL

"A COMMUNITY CENTER"

P.O. BOX 301

LAURENS, NEW YORK 13796 • TELEPHONE (607) 432-2050

FAX (607) 432-4388

31 October 2006

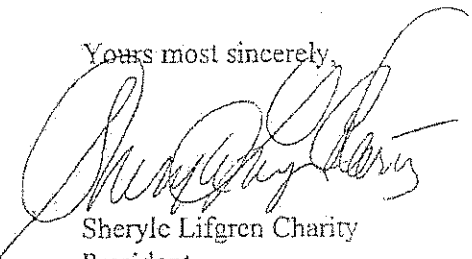
Office of the State Comptroller

[REDACTED]  
State Office Building, Room 1702  
44 Hawley Street  
Binghamton, NY 13901-4417

[REDACTED]:  
This letter represents the Laurens Central School District's response to the audit by the New York State Office of the State Comptroller for the review period beginning 1 July 2004 and ending 19 December 2005 which was begun with a Board of Education orientation meeting held 21 December 2005 and was concluded at an exit interview on 11 October 2006. The Board of Education for the Laurens Central School District generally agrees with the findings and recommendations presented by the Auditors at the exit interview.

On behalf of the Laurens Central School District, we would also like to take this opportunity to thank the Office of the State Comptroller for taking the time to show us how our existing procedures fall slightly short of current auditing standards and offering us the opportunity to improve our efforts in order to more effectively safeguard the assets we hold in trust for our community.

Yours most sincerely,

  
Sheryle Lifgren Charity  
President  
Board of Education  
Laurens Central School District

cc: via facsimile to OSC @ (607) 721-8313

## 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 of Education minutes and financial records and reports. In addition, 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 those weaknesses for the risk of potential fraud, theft and/or professional misconduct. We then decided upon the reported objective and scope by selecting for audit those areas most at risk. We selected internal controls over purchasing and capital assets for further audit testing.

In order to accomplish our objective we performed the following procedures relating to purchasing and capital assets:

- Reviewed any adopted policies or directives the District had instituted;
- Interviewed District staff to gain an understanding of the current procedures in place;
- Reviewed disbursements from the Trust and Agency accounts and Special Aid Fund to see what type of expenditures and how much were disbursed without proper audit and approval by the internal claims auditor;
- Reviewed Pouring Rights contracts relating to disbursements from the Trust and Agency account;
- Judgmentally selected disbursements that would require written and verbal quotes and made inquiry as to if such quotes were obtained;
- Judgmentally selected capital assets from the District's inventory record and verified the physical existence and location of the assets.

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

### HOW TO OBTAIN ADDITIONAL COPIES OF THE REPORT

To obtain copies of this report, write or visit our web page:

Office of the State Comptroller  
Public Information Office  
110 State Street, 15th Floor  
Albany, New York 12236  
(518) 474-4015  
<http://www.osc.state.ny.us/localgov/>

**APPENDIX D**  
**OFFICE OF THE STATE COMPTROLLER**  
**DIVISION OF LOCAL GOVERNMENT SERVICES**  
**AND ECONOMIC DEVELOPMENT**

Mark P. Pattison, Deputy Comptroller  
Steven J. Hancox, Assistant Comptroller  
John C. Traylor, Acting Assistant Comptroller

**LOCAL REGIONAL OFFICE LISTING**

---

**BUFFALO REGIONAL OFFICE**

Robert Meller, Chief Examiner  
Office of the State Comptroller  
295 Main Street, Room 1050  
Buffalo, New York 14203-2510  
(716) 847-3647 Fax (716) 847-3643  
Email: [Muni-Bufferalo@osc.state.ny.us](mailto:Muni-Bufferalo@osc.state.ny.us)

Serving: Allegany, Cattaraugus, Chautauqua, Erie,  
Genesee, Niagara, Orleans, Wyoming counties

**ROCHESTER REGIONAL OFFICE**

Edward V. Grant, Jr., Chief Examiner  
Office of the State Comptroller  
The Powers Building  
16 West Main Street – Suite 522  
Rochester, New York 14614-1608  
(585) 454-2460 Fax (585) 454-3545  
Email: [Muni-Rochester@osc.state.ny.us](mailto:Muni-Rochester@osc.state.ny.us)

Serving: Cayuga, Chemung, Livingston, Monroe,  
Ontario, Schuyler, Seneca, Steuben, Wayne, Yates  
counties

**SYRACUSE REGIONAL OFFICE**

Eugene A. Camp, Chief Examiner  
Office of the State Comptroller  
State Office Building, Room 409  
333 E. Washington Street  
Syracuse, New York 13202-1428  
(315) 428-4192 Fax (315) 426-2119  
Email: [Muni-Syracuse@osc.state.ny.us](mailto:Muni-Syracuse@osc.state.ny.us)

Serving: Herkimer, Jefferson, Lewis, Madison,  
Oneida, Onondaga, Oswego, St. Lawrence counties

**BINGHAMTON REGIONAL OFFICE**

Patrick Carbone, Chief Examiner  
Office of the State Comptroller  
State Office Building, Room 1702  
44 Hawley Street  
Binghamton, New York 13901-4417  
(607) 721-8306 Fax (607) 721-8313  
Email: [Muni-Binghamton@osc.state.ny.us](mailto:Muni-Binghamton@osc.state.ny.us)

Serving: Broome, Chenango, Cortland, Delaware,  
Otsego, Schoharie, Sullivan, Tioga, Tompkins  
counties

**GLENS FALLS REGIONAL OFFICE**

Karl Smoczynski, Chief Examiner  
Office of the State Comptroller  
One Broad Street Plaza  
Glens Falls, New York 12801-4396  
(518) 793-0057 Fax (518) 793-5797  
Email: [Muni-GlensFalls@osc.state.ny.us](mailto:Muni-GlensFalls@osc.state.ny.us)

Serving: Clinton, Essex, Franklin, Fulton, Hamilton,  
Montgomery, Rensselaer, Saratoga, Warren, Washington  
counties

**ALBANY REGIONAL OFFICE**

Christopher J. Ellis, Chief Examiner  
Office of the State Comptroller  
22 Computer Drive West  
Albany, New York 12205-1695  
(518) 438-0093 Fax (518) 438-0367  
Email: [Muni-Albany@osc.state.ny.us](mailto:Muni-Albany@osc.state.ny.us)

Serving: Albany, Columbia, Dutchess, Greene, Orange,  
Putnam, Rockland, Schenectady, Ulster, Westchester  
counties

**HAUPPAUGE REGIONAL OFFICE**

Richard J. Rennard, Chief Examiner  
Office of the State Comptroller  
NYS Office Building, Room 3A10  
Veterans Memorial Highway  
Hauppauge, New York 11788-5533  
(631) 952-6534 Fax (631) 952-6530  
Email: [Muni-Hauppauge@osc.state.ny.us](mailto:Muni-Hauppauge@osc.state.ny.us)

Serving: Nassau, Suffolk counties