



# Lowville Central School District

## Internal Controls Over

## Capital Assets

### Report of Examination

Period Covered:

July 1, 2004 - June 30, 2005

2006M-48



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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

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 Lowville Central School District — Internal Controls Over Capital Assets.

This audit was conducted pursuant to the State Comptroller's authority as set forth in Article 5, 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 Lowville Central School District (District) is located in the Towns of Denmark, Greig, Harrisburg, Lowville, Martinsburg, Montague, New Bremen, Pinckney, Turin, Watson and West Turin. 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 District's chief executive officer and is responsible, along with other administrative staff, for the day-to-day management of the District under the Board's direction.

There is one school in operation within the District, with approximately 1,400 students and 250 full and part-time employees. The District's budgeted expenditures for the 2005-06 fiscal year are \$16.5 million funded primarily with State aid, real property taxes and grants.

District capital assets represent a significant investment of resources. As of June 30, 2005, the District reported approximately \$30.9 million in capital assets which consisted of \$27.2 million for land, buildings, and improvements other than buildings and \$3.7 million for equipment. The District Treasurer (Treasurer) is responsible for maintaining capital asset records.

## Objective

The objective of our audit was to examine the District's internal controls relating to capital assets. Our audit addressed the following related question:

- Did the Board implement adequate internal control policies and procedures to protect and account for District capital assets?

## Scope and Methodology

Our overall goal was to assess the adequacy of the internal controls put in place by District 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 protection

of capital assets and therefore, we examined the internal controls relating to capital assets of the District for the period July 1, 2004 to June 30, 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.

## Capital Assets

The District's internal controls are a coordinated set of policies and procedures designed to provide reasonable assurance of achieving the Board's objectives, including the protection and effective use of District assets. A good system of internal control over capital assets can help prevent or identify errors, irregularities or misuse in a timely manner.

Capital assets are those assets that have a useful life of more than one year and include such things as land, buildings and building improvements, 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. This can be accomplished by adopting policies, maintaining perpetual inventory records of capital assets, conducting periodic inventories and establishing other safeguards such as tagging all capital assets as belonging to the District. Periodic physical inventories of all capital assets are necessary to help ensure the accuracy and completeness of recorded amounts. Periodic physical inventories can also help identify obsolete assets. The results of these physical inventories should be compared to capital asset records and any discrepancies investigated.

The District has taken several positive steps in implementing internal controls to safeguard their capital assets including appointing a District official to track capital assets and maintain capital asset inventory records. However, additional improvements could be made.

### Policy

A comprehensive capital asset policy includes the Board's objectives relating to capital assets and includes the duties, records and procedures related to achieving these objectives. The elements of the policy include: designation of a property control manager, how capital asset records will be maintained, when periodic inventories will be conducted, how capital assets will be physically identified as belonging to the District, how those assets can be disposed of and any restrictions on access or use.

The Board has not adopted a capital asset policy. The lack of a policy increases the risk that District employees do not have guidance to properly account for and safeguard capital assets.

### Records

Ideally, one person (the property control manager) should have overall responsibility for tracking capital assets, and for the accuracy

and usefulness of the capital asset records. The person in charge of the capital asset records should have restricted access to the property/assets. For example, the property control manager should not be the person accepting receipt of new assets. The detailed records maintained by the property control manager or other designated individual(s) 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 numbers); the District's assigned identification number (where appropriate);<sup>1</sup> the date, amount, vendor and voucher number for the purchase; the department having custody and the location within the department; and the source of funds used to purchase the item. Periodic physical inventories of all capital assets are necessary to help ensure the accuracy and completeness of recorded amounts.

In September 2000, a private firm prepared capital asset records for the District. The next physical inventory by the firm is scheduled for 2007. In the interim, the Treasurer is responsible for maintaining capital asset records. At the end of each school year, the Treasurer sends the firm an update of any asset additions and dispositions which she compiles from the District's accounting records of equipment purchases and information provided by departments on asset dispositions. The firm updates the capital asset records based on the information provided by the Treasurer.

The District has established certain internal controls to help safeguard its capital assets. We found that the District has appointed an employee (the Treasurer) to track capital assets, the Treasurer has only restricted access to the capital assets and the Treasurer is not the employee that accepts receipt of new assets. In addition, the District maintains perpetual inventory records that details individual capital assets and the Treasurer updates these records annually for acquisitions and dispositions that she is made aware of. Our audit disclosed that certain additions and dispositions were not made to the asset records and the capital assets are not affixed with a District identification tag.

Our examination of the District's capital assets records disclosed the following specific deficiencies:

- We selected 16 capital assets (costing \$129,310) and attempted to trace the items to the capital asset records. A weight machine costing \$1,744 and a piece of band equipment (marimba)

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<sup>1</sup> Each asset should be identified by some method such as serial numbers, decaling or tagging. The method of identification should include the District's name.

costing \$7,149 were not recorded in the capital asset records. The Treasurer said that the reason the weight machine was not included in the capital asset records was that it had been donated to the District and she had not been notified of the donation. The Treasurer also said that the marimba was not included in the capital asset records because it was purchased with student activities moneys and purchases from this funding source were not included on the listing used to record capital asset acquisitions. Additionally, the 16 items were not identified with the District's name and by some method such as serial numbers, decaling or tagging.

- We selected 22 items (costing \$129,492) from the capital asset records and attempted to view each item. We were not able to locate two of the seven work benches purchased in 1989 costing \$700 each. The head custodian thought the two work benches were sold at the District's auction in 1998. Auction records were not detailed enough to identify the sale of the two work benches. Additionally, the 22 items were also not identified with the District's name and by some method such as serial numbers, decaling or tagging.

## **Recommendations**

The failure to affix identification tags and account for all additions and deletions to capital assets could result in decreased protection for capital assets.

1. The Board should establish a comprehensive capital asset policy that communicates its objectives concerning the duties, records and procedures required for protecting District capital assets.
2. All of the District's capital assets should be included in the capital asset records regardless of how they were obtained. Physical inventories should be conducted periodically (preferably more frequently than seven years) and the results compared with the capital asset records. Any differences should be promptly investigated and resolved.
3. Each moveable capital asset should be identified by some method such as serial numbers, decaling or tagging and should have the District's name either on the decal, tag or directly on the capital asset itself.

**APPENDIX A**  
**RESPONSE FROM DISTRICT OFFICIALS**

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

The Lowville Central School District response letter makes reference to several attachments that support the response letter. Because the District's response letter provides sufficient detail of its actions, we did not include the attachments in Appendix A.

TO: [REDACTED]  
Office of the State Comptroller

FROM: Kenneth J. McAuliffe, Superintendent  
Lowville Academy and Central School District

**Official Response on Behalf of Lowville Academy  
Draft Audit Report - July 25, 2006**

The Lowville Academy and Central School District Board of Education, Superintendent and business staff have reviewed the Report of Examination for the July 1, 2004 to June 30, 2005 period relative to internal controls over capital assets. Our response to the findings and recommendations follows below.

1. Overall Findings – The school district accepts the recommendations and findings of the June 30, 2006 Report of Examination and considered the audit process an excellent opportunity to review all district practices and align them with the standards established by the Comptroller’s office. We consistently strive to improve our internal control and financial management process and found the audit examiners professional, knowledgeable and helpful throughout the field work. We believe the audit process was thorough, well organized and instructive in its scope and service delivery.

As a district, we take great satisfaction in knowing our major internal controls and management of financial assets were evaluated as part of the State Comptroller’s standards. We believe the recent work undertaken by the district over the last 30 months to strengthen our internal controls by reorganizing and updating district practices was instrumental in preparing for the evaluation performed by the field examiners. On the improvement side, we will use the audit report to improve our internal controls over capital assets. The recommendations made in the Report of Examination will be implemented by the Board of Education, Superintendent and Business Manager over the next 90 days.

2. Lowville Academy and Central School District – Plan to Address Recommendations – The plan to address the internal control/asset management recommendations will focus on the establishment of a new district-wide inventory management system. This comprehensive system will focus on nine major areas of asset management. A district-wide committee has been established to develop the inventory management system that will involve the identification/tagging of all assets and annual inventory of same.

The process will result in a significantly stronger operation beginning with a new Board of Education policy that delineates a capital asset policy. In addition, a property control manager will be appointed to track and maintain an annual inventory of all assets. The district will also create an ID system to tag/barcode all equipment items. The firm Industrial Appraisal will be engaged to assist in the development of this inventorying system.

3. Supporting Documents – The attachments enclosed provide additional information on how the Lowville Central School District will address the audit report recommendations. The process of creating the new capital asset policy, development of an inventory system and formalization of a district-wide committee was put in place on July 3, 2006.
4. Summary Statement – We believe the audit conducted by the office of local government staff will help our district make the necessary improvements to district practices. The recommendations will lead to improved controls in a number of significant areas.

Respectfully submitted,



Kenneth J. McAuliffe  
Superintendent of Schools

July 25, 2006

## **APPENDIX B**

### **AUDIT METHODOLOGY AND STANDARDS**

Our overall goal was to assess the adequacy of the internal controls put in place by District 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 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 review. We then decided upon the reported objective and scope by selecting for audit the area most at risk. We selected controls relating to capital assets for further audit testing.

To accomplish the objective of this audit, our procedures included the following:

- We interviewed appropriate District officials in order to obtain an understanding of the organization, the District's accounting system and to identify key personnel.
- We obtained copies of District policies and procedures and evaluated the adequacy of these policies.
- We reviewed the District's electronic data processing (EDP) system for control weaknesses relating to obtaining a list of equipment purchases from the District's accounting records for the annual updates. Our purpose was to determine if controls over the District's EDP system were lacking or circumvented, and to recommend procedures to strengthen internal controls over computer-generated financial records.
- We examined record keeping and other safeguards relating to District capital assets and located capital assets identified in District 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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