



# McGraw Central School District Internal Controls Over Capital Assets

## Report of Examination

Period Covered:

July 1, 2004 - December 22, 2005

2006M-76



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

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 McGraw Central School District — Internal Controls Over Capital Assets.

This audit was conducted pursuant to the State Comptroller's authority as set forth in Article V, Section 1 of the State Constitution and Article 3 of the General Municipal Law. The report contains opportunities for improvement for consideration by school district officials.

If we can be of assistance to you or if you have any questions concerning this report, please feel free to contact the local regional office for your county listed at the back of this report.

Respectfully submitted,

*Office of the State Comptroller  
Division of Local Government Services  
and Economic Development*

# Introduction

## Background

The McGraw Central School District (District) is located in seven towns and has its administrative offices in the Village of McGraw, Cortland County. The District is governed by the Board of Education (Board) which is comprised of seven 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 two schools in operation within the District, with approximately 604 students and 75 employees. The District's budgeted expenditures for the 2005-06 fiscal year are \$8,432,810, funded primarily with State aid, real property taxes and grants.

Capital assets are those physical assets that have a useful life of more than one year and include such things as land, buildings and improvements, furnishing, and various types of equipment. The District's inventory of capital assets represents a significant investment of its financial resources which as of June 30, 2005, aggregated approximately \$11 million.

## Objective

The objective of this audit was to determine if District officials have properly safeguarded their capital assets. Our audit addressed the following related question:

- Were internal controls appropriately designed and operating effectively to safeguard capital assets?

## Scope and Methodology

Our overall goal was to assess the adequacy of the internal controls put in place by officials to safeguard District assets. To accomplish this, we performed an initial assessment of the internal controls so that we could design our audit to focus on those areas most at risk. Our initial assessment included evaluations of the following areas: cash receipts and disbursements, purchasing, payroll and personal services, and capital assets and consumable inventories. Based on that evaluation, we determined that controls appeared to be adequate and limited risk existed in most of the financial areas we reviewed. We did determine that risk existed in the capital assets area and therefore, we examined internal controls over capital assets for the period July 1, 2004 to December 22, 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.

## Internal Controls Over Capital Assets

It is essential that District officials ensure that their capital assets are protected from loss, their value is maintained, and that they are used effectively for their intended purposes. A good system of internal controls consists of policies and procedures that help ensure that all acquisitions and dispositions of capital assets are recorded in the accounting records and they are affixed with unique identification numbers. In addition, good internal controls require that officials regularly perform periodic physical inventories (i.e. physically view the assets) and verify that they are properly recorded in the detail accounting records to ensure the accuracy and effectiveness of the system in safeguarding and accounting for those assets.

District officials contracted with a private company in 2004 to provide updated property listing reports annually by using information provided by District staff since the previous updated property listing report. The last updated property listing report was dated as of June 30, 2005. In addition to this record, a District employee maintains a separate inventory record of computer-related equipment. We found the internal controls over the District's capital assets could be improved. District officials have not adopted a capital asset policy setting forth the duties, records and procedures required to adequately safeguard capital assets. We also determined that District personnel do not consistently affix identification numbers to individual assets where feasible or perform periodic physical inventories to verify the accuracy of the capital asset inventory accounting records.

As part of our audit procedures, we attempted to physically locate 80 items (37 of which were computers) totaling about \$151,400 and trace them to information recorded in the inventory accounting records to determine that they were properly accounted for. The results of our audit were as follows:

- We found nine items which either did not have identification tags with unique numbers affixed to them, or had incorrect numbers. District staff told us that they do not affix identification tags with unique numbers to newly acquired assets because students remove them.
- We viewed six items (five computers and a printer), with an approximate value of \$5,700, which were not listed on the inventory accounting record.
- We could not locate three computers listed on the inventory accounting record. These computers were extremely old.

District staff told us that the computers were no longer in the District, yet they remained on the inventory records.

- We found ten items which were either in a different location than indicated in the records or the identification number affixed was for a different asset listed on the inventory accounting record.
- The inventory accounting record for nine items was missing either location or serial number information.

As a result, errors or irregularities related to capital asset inventories could occur and go undetected and uncorrected by District officials.

## **Recommendations**

1. The Board should prepare and adopt a comprehensive capital assets policy. The policy should require the affixing of unique identifying numbers on all capital assets.
2. District officials should ensure that periodic physical inventories of capital assets are performed. The results of the physical inventory should be compared to District records and any differences should be investigated and resolved.
3. District officials should document the final disposition of the missing computers and adjust the inventory records accordingly.

## **APPENDIX A**

### **RESPONSE FROM DISTRICT OFFICIALS**

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



**McGRAW CENTRAL  
SCHOOL DISTRICT**

West Academy St.

P.O. Box 556

McGraw, New York 13101-0556

"To pursue the maximum fulfillment of each student's potential"

**Maria S. Fragnoli-Ryan**

Superintendent

607-836-3636

(Fax) 607-836-3635

email:msfryan@mcgrawschools.org

July 26, 2006

████████████████████  
Office of the State Comptroller  
Division of Local Government Services  
State Office Building, Room 1702  
44 Hawley St.  
Binghamton, NY 13901-4417

Dear ██████████:

On July 19, 2006, the McGraw Central School District's audit committee met with the district's independent auditors to discuss how the school district will respond to the concerns outlined in the New York State Comptroller's preliminary draft findings of their recent examination of the district.

The following represents the school district's plan of action:

1. Within the next 60 days, the school district's board of education will adopt a comprehensive capital assets policy.
2. The policy shall include the following provisions:
  - a. It shall require identification numbers to be affixed to all capital assets valued at \$500 or more at the time of purchase.
  - b. The district shall conduct a physical inventory of its assets twice per year.
  - c. The district has maintained a practice of designating all capital assets as surplus by the Board prior to disposal. The comptroller's review has revealed that this practice has not been fully implemented. Through adoption of the policy, the district will adopt this practice into formal policy. Final disposal of all capital assets shall therefore be documented in accordance with school board policy.

Sincerely,

Maria S. Fragnoli-Ryan

c. McGraw Audit Committee

Web Site: [www.mcgrawschools.org](http://www.mcgrawschools.org)

## **APPENDIX B**

### **AUDIT METHODOLOGY AND STANDARDS**

Our overall goal was to assess the adequacy of the internal controls put in place by officials to safeguard District assets. To accomplish this, we performed an initial assessment of the internal controls so that we could design our audit to focus on those areas most at risk. Our initial assessment included evaluations of the following areas: cash receipts and disbursements, purchasing, payroll and personal services, and capital assets and consumable inventories.

During the initial assessment, we interviewed appropriate District officials, performed limited tests of transactions and reviewed pertinent documents such as District policies and procedures manuals, Board minutes and financial records and reports. In addition, we obtained information directly from the computerized financial databases and then analyzed it electronically using computer-assisted techniques. This approach provided us with additional information about the District's financial transactions as recorded in its database. 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 internal controls over capital assets for further audit testing.

In order to accomplish the objectives of this audit and obtain valid audit evidence, our audit procedures included the following steps:

- We examined the internal controls over capital assets, inventory records, storage locations, and physical assets for the period July 1, 2004 to December 22, 2005.
- We interviewed appropriate District officials and employees in regards to capital asset policies and procedures.
- We reviewed all District inventory lists for accuracy by; physically locating assets as listed on the inventory records; tracing a sample of assets back to the inventory records.
- We assessed the District's established internal controls over capital assets to ascertain whether they provided sufficient and adequate safeguards over the District's 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

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**DIVISION OF LOCAL GOVERNMENT SERVICES**  
**AND ECONOMIC DEVELOPMENT**

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