



Saranac Lake Central School District Internal Controls Over Capital Assets

Report of Examination

Period Covered:

July 1, 2004 - December 31, 2005

2006M-42



ALAN G. HEVESI

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State of New York Office of the State Comptroller

Division of Local Government Services and Economic Development

July 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 Saranac Lake 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 Saranac Lake Central School District (District) is located in the Towns of Harrietstown, Franklin, Santa Clara and Brighton in Franklin County; St. Armand and North Elba in Essex County; and Black Brook in Clinton County. The District covers the largest geographic area of any school district in New York State. It 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. Responsibilities relating to the District's finances, and accounting records and reports are largely those of the District's Business Executive. All financial transactions are processed by the District's Business Office using the "InfoMatic" software package. The District's financial statements undergo an annual audit by an independent CPA firm.

There are six schools in operation within the District, with approximately 1,600 students, and 312 employees. The District's budgeted general fund expenditures for the 2005-06 fiscal year were \$23.7 million, which were funded primarily with State aid, real property taxes, and grants.

As of June 30, 2005, the District reported approximately \$17.5 million in capital assets, of which approximately \$11.5 million represents land and buildings, and \$6 million equipment. Contained within the \$6 million equipment inventory is more than \$1.3 million in computers and computer-related equipment.

Objective

The objective of our audit was to determine whether the District's internal controls over its capital assets are adequate. Our audit addressed the following related question:

- Are internal controls over capital assets appropriately designed 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 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 District's capital assets area and, therefore, we examined internal controls over capital assets for the period July 1, 2004 to December 31, 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

A good system of internal control consists of policies, practices, and procedures that allow an organization to provide reasonable assurance that it is using its resources effectively (i.e., prudently and economically), that it is complying with applicable laws and regulations, and that its financial reports are reliable. A major component of a good system of internal control is management's attitude toward, and support for, internal controls, and its regular monitoring of such controls to make sure they are working effectively. The Board and District officials are responsible for designing internal controls that help protect the District's assets and ensure the prudent and economical use of its moneys when procuring goods and services. To meet these responsibilities and to protect against favoritism, extravagance, fraud and corruption, the District must establish adequate internal controls. Certain controls are designed to prevent errors and irregularities from occurring. Other controls act to detect errors and irregularities in a timely manner. When it comes to the purchase of and accountability for capital assets, a good system of internal control uses each of these types of controls to minimize the risk that errors or irregularities may occur and go undetected.

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. The District's inventory of capital assets represents a significant investment of District resources. As of June 30, 2005, the District reported approximately \$17.5 million in capital assets, of which approximately \$11.5 million represents land and buildings, and \$6 million equipment. Contained within the \$6 million equipment inventory is more than \$1.3 million in computers and computer-related equipment.

The District's internal controls were not sufficient to adequately account for and safeguard the District's capital assets. The fixed asset inventory records for the District's capital assets were not maintained in a timely and accurate manner. As a result, certain equipment purchases were not recorded in the inventory records, while equipment that had been disposed of remained on the inventory records. Because District personnel did not perform periodic physical inventories, District officials were unaware of the inventory deficiencies. The system's weaknesses have exposed the District to the possible loss of fixed assets, which would not likely be subject to reasonable detection by District officials.

Fixed Asset Policy

District officials are responsible for adopting a written policy for the protection and accountability of the District's fixed assets as part of their oversight function. The fixed asset policy establishes the internal control structure for fixed asset oversight and should, at a minimum, contain the following:

- Designation of a property manager
- Guidelines for the maintenance of fixed asset records, which require that District personnel record the asset's make, model, serial number, identification number, location, party with custody, and date, amount, vendor, and voucher number of the purchase
- An assigned equipment identification number and markings
- Provisions for the maintenance of a perpetual inventory
- Provisions for periodic physical inventories
- An annual review of the policy by the Board to ensure it continues to meet the District's objectives.

The Board had not adopted a written policy to protect and account for the District's fixed assets. In the absence of a written fixed asset policy, the District's oversight of its fixed assets is based on an informal directive of the Board. District officials told us that – with the exception of computer and computer-related equipment – the informal guidelines are that District staff must account for assets valued at \$1,500 or more in the fixed asset records. Computers and computer-related equipment, regardless of value, must be included in the fixed asset records.

Inventory Accountability

Inventory accountability is traditionally maintained by performing a periodic physical inventory of capital assets, and comparing the inventory results to the official inventory records.

In 2004, the District secured the services of an inventory consulting firm to perform a physical inventory of the District's assets. The consulting firm was to provide the District with a completed inventory of all District fixed assets and database software, so that the District could maintain a perpetual inventory of their assets within its own accounting system. The District was also to provide the consulting firm with annual inventory changes made during the prior fiscal year, so that the consultant could prepare a summary report for the District's annual financial statements. The consultant completed its

physical inventory in August/September 2004, and the firm provided the District with the completed fixed asset inventory and software.

We found that since the consultant completed the physical inventory, the District has not recorded all of its subsequent inventory changes to the fixed asset database software program, which was provided by the consulting firm. Because the consulting firm ultimately uses the information recorded in the database software application to produce information for the District's financial records, the District's financial records and its annual financial reports produced from those records have been inaccurate.

The District's inventory records indicated that 77 computers were located in two of the District's schools. During our physical inventory we located 70 computers in those two schools, but we never located the remaining seven computers. However, we also found that the serial numbers for 30 of those 70 computers were not recorded in the inventory records, effectively leaving 37 computers unaccounted for (30 with unrecorded serial numbers, and seven missing altogether).

In addition, during the period July 1, 2004 to December 31, 2005, the District purchased more than 200 computers. We traced 108 of the 200 computer purchase vouchers to the designated physical location of those computers, and attempted to locate them in the District's inventory records. While we were able to physically locate all of the 108 computers within the District's buildings, we found that District personnel had not recorded 68 of those 108 computers in the fixed asset records.

Disposition of Computer Equipment

Computers and related peripheral equipment have become one of the most common assets owned by Districts. Computers are not used just for administrative activities, but are used for computer skill training and as tools in other educational activities. Based on rapid changes in computer technology, computers are constantly subjected to impending obsolescence. Due to the relative shortness of their useful lives, it is imperative that Districts develop guidelines for computer replacement and for the disposition of the computers being retired.

The District does not have written guidelines for evaluating and disposing of its computers and computer equipment. In lieu of specific disposal guidelines, District personnel periodically provide the Board with a generic listing of computer equipment that District officials feel should be retired and disposed of. For example, in February 2005, the Board authorized the disposal of "a lot of computers" – as stated in the Board resolution. However, the Board did not include the number of computers to be disposed of, or their makes, models, serial numbers or other identifying information in their approving resolution. The

District then gave the unknown number of computers, at no cost, to an independent computer repair business located in the Town of Plattsburgh. Based on the lack of written guidelines and supporting documentation, we were unable to determine whether the computers should have been discarded (due to obsolescence), whether any of the computers had any residual resale value to the District, or whether they were all truly given to the private computer business.

The failure to establish adequate guidelines for the disposal of capital assets, especially computers and computer equipment, exposes the District to possible errors and irregularities, including fraud, that may occur and not be detected.

Recommendations

1. The Board should establish and implement a fixed asset policy for the District's capital assets, which properly addresses the District's computers and computer-related equipment.
2. The Board should designate a property manager to be responsible for implementing the District's fixed asset policy. Also, the Board should ensure that the property manager is responsible for maintaining the inventory records, performing periodic physical inventories, and reconciling the physical inventories with the inventory records.
3. The Board should require that District personnel assign an identification number to all applicable capital assets, especially computers and computer equipment, and record those numbers in the inventory records. Also, District officials should ensure that District personnel place those identification numbers on the assets using either a metal tag or a decal.
4. The Board should establish and implement written guidelines for the disposal of the District's capital assets, which properly address the District's computers and computer-related equipment.
5. The Board should review the District's fixed asset policy on an annual basis.

APPENDIX A
RESPONSE FROM DISTRICT OFFICIALS

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



SARANAC LAKE CENTRAL SCHOOL DISTRICT

79 CANARAS AVENUE
SARANAC LAKE, NEW YORK 12983-1500



DISTRICT OFFICE - (518) 891-5460
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WEBSITE - www.slcs.org

July 5, 2006

Glens Falls Regional Office
One Broad Street Plaza
Glens Falls, NY 12801

To Whom It May Concern:

Please accept the following response on behalf of the Board of Education of the Saranac Lake Central School District in regard to the recent audit recommendations resulting from an audit performed by your office in January/February of 2006.

RESPONSE

The school board will be adopting a written a policy regarding the management and control of fixed assets at its regularly scheduled board meeting of July 19, 2006. A copy of this policy is enclosed and addresses all of the recommendations contained in the draft audit report of June 21, 2006.

If you have any other concerns, comments or suggestions please feel free to let me know.

Sincerely,

A handwritten signature in cursive that reads "R. Miles VanNortwick, Jr.".

R. Miles VanNortwick, Jr. President
Board of Education

Encs.

Article 56
FIXED ASSET INVENTORY MANAGEMENT SYSTEM

Section 56.1 Purpose

The purpose of the fixed asset inventory management system is to establish proper procedures for monitoring the movement of fixed assets to maintain accurate reporting of asset values as required by New York State.

Section 56.2 Definitions

The following terms shall apply to inventory governed by this policy.

(A) "Fixed Assets" are defined as tangible property with a value greater than \$1,500 that the school district retains, more or less permanently, for use in the normal course of school district operations.

(B) "Property Manager" (hereinafter referred to as "*Stores Clerk*") is defined as the person responsible for the accurate recording of new inventory and the transfer, relocation or disposal of old inventory under the direction of the Purchasing Agent..

Section 56.3 Property Manager (Stores Clerk); Duties

The district "property manager" (*Stores Clerk*) shall be responsible for the administration of this policy and in doing so shall:

- (A) Administer a centralized fixed asset inventory management system;
- (B) Record all fixed assets with a value greater than \$1,500 into the fixed asset management system in a timely manner;
- (C) Record ALL computer hardware and peripherals such as printers, projectors, etc. regardless of cost in a timely manner;
- (D) Record all fixed assets at acquisition cost which is to include all shipping costs;
- (E) Mark all recordable fixed assets with an identification tag provided by the fixed asset management system. The identification tag should be a "bar code" scannable tag.

Section 56.4 Transfer, Relocation and Disposition of Fixed Assets

All transfers, relocation and disposition of fixed assets must be accompanied by a form approved by the property manager (*Stores Clerk*) and the Board of Education. The transfers, relocation and disposition of fixed assets must first be approved by the building supervisor or administrator *prior* to the actual transfer, relocation or disposition of any fixed asset. **THERE ARE NO EXCEPTIONS TO THIS PROCEDURE. (See sample form below)**

The Purchasing Agent will determine the most beneficial disposition of any surplus equipment.

Transfer, Relocation, Disposal of Fixed Asset Record

Note: This form must be completed *prior* to the transfer, relocation or disposal of ANY fixed asset. Return completed form to the Purchasing Department.

Date: _____

Description of Fixed Asset/Item: _____

Identification Tag Number: _____

Serial Number: _____

Building: _____

Room Number: _____

Transfer/Relocation:

From _____ *To* _____
Building: _____ Building: _____

Room: _____ Room: _____

Signature of Supervisor/Administrator

Surplus/Disposal:

Method: _____

Date Approved by Board of Education: _____

Signature of Purchasing Agent

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 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 reviewed. 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.

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

- We interviewed District officials responsible for the purchase and accountability of the District's capital assets.
- We performed, on a test basis, comparisons of capital purchases to the inventory records, assets listed in the inventory records, and to the actual assets located in the schools and administrative facilities. We also performed, on a test basis, comparisons of assets located in the schools and administrative facilities to the inventory records.
- We selected two school locations and performed a physical inventory of computers and computer equipment. We then compared the physical inventory to the information recorded in the fixed asset records. We also selected a test group of computer purchases and compared them to the fixed asset records to ensure they were added to the inventory.

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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