



Somers Central School District Fixed Assets

Report of Examination

Period Covered:

July 1, 2014 – December 1, 2015

2016M-74



Thomas P. DiNapoli

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State of New York Office of the State Comptroller

Division of Local Government and School Accountability

June 2016

Dear School District Officials:

A top priority of the Office of the State Comptroller is to help school district officials manage their districts efficiently and effectively and, by so doing, provide accountability for tax dollars spent to support district operations. The Comptroller oversees the fiscal affairs of districts statewide, as well as districts' compliance with relevant statutes and observance of good business practices. This fiscal oversight is accomplished, in part, through our audits, which identify opportunities for improving district operations and Board of Education governance. Audits also can identify strategies to reduce district costs and to strengthen controls intended to safeguard district assets.

Following is a report of our audit of the Somers Central School District, entitled Fixed Assets. This audit was conducted pursuant to Article V, Section 1 of the State Constitution and the State Comptroller's authority as set forth in Article 3 of the New York State General Municipal Law.

This audit's results and recommendations are resources for district officials to use in effectively managing operations and in meeting the expectations of their constituents. If you have questions about this report, please feel free to contact the local regional office for your county, as listed at the end of this report.

Respectfully submitted,

*Office of the State Comptroller
Division of Local Government
and School Accountability*

Introduction

Background

The Somers Central School District (District) encompasses the Towns of Somers, Katonah and Yorktown in Westchester County. The District is governed by the Board of Education (Board), which is composed 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 is the District's chief executive officer and is responsible, along with other administrative staff, for the District's day-to-day management under the Board's direction.

The District operates four schools with approximately 3,300 students and 700 employees. As of June 30, 2015, the District had approximately \$180 million in fixed assets, of which approximately \$8.5 million were machinery and equipment. The District's budgeted appropriations for the 2015-16 fiscal year are approximately \$87 million, which are funded primarily with real property taxes and State aid.

Objective

The objective of our audit was to review controls over the District's fixed assets and information technology (IT) equipment. Our audit addressed the following related question:

- Did the Board ensure that fixed assets and IT equipment were properly recorded, accounted for and disposed of?

Scope and Methodology

We examined the District's fixed assets and IT equipment for the period July 1, 2014 through December 1, 2015.

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 C of this report. Unless otherwise indicated in this report, samples for testing were selected based on professional judgment, as it was not the intent to project the results onto the entire population. Where applicable, information is presented concerning the value and/or size of the relevant population and the sample selected for examination.

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. Except as specified in Appendix A, District officials generally agreed with our recommendations and indicated they planned to take corrective action. Appendix B includes our comment on the issue raised in the District's response letter.

The Board has the responsibility to initiate corrective action. Pursuant to Section 35 of General Municipal Law, Section 2116-a (3)(c) of New York State Education Law and Section 170.12 of the Regulations of the Commissioner of Education, a written corrective action plan (CAP) that addresses the findings and recommendations in this report must be prepared and provided to our office within 90 days, with a copy forwarded to the Commissioner of Education. To the extent practicable, implementation of the CAP must begin by the end of the next fiscal year. For more information on preparing and filing your CAP, please refer to our brochure, *Responding to an OSC Audit Report*, which you received with the draft audit report. The Board should make the CAP available for public review in the District Clerk's office.

Fixed Assets

Fixed assets such as machinery and IT equipment represent a significant investment of District resources. District officials are responsible for ensuring that fixed assets are protected from loss and that records are current and accurate. Officials can fulfill this responsibility by adopting an asset policy that sets forth the duties, records and control procedures to safeguard assets. District officials should establish dollar value thresholds for identifying and tracking fixed assets and ensure that fixed assets are located in the departments of record. No fixed asset should be disposed of without authorization.

The District contracts with an asset vendor who provides an asset list template to maintain asset records, such as current inventory, additions, disposals and transfers. IT employees and a Business Office assistant are responsible for updating and maintaining the asset list for all assets greater than \$500.¹ The IT department maintains its own database to track and monitor IT equipment. All assets over \$500 are tagged. The Business Office assistant provides departments with tags to affix to assets as they are received. The IT department maintains its own tags and is responsible for tagging its assets as they are assigned. Asset disposals are reviewed by the Assistant Superintendent for Business and approved by the Board.

Although the District has procedures specific to the maintenance of IT inventory, the Board has not adopted an asset policy establishing capitalization or tagging thresholds, controls over assets or how to maintain records for these assets. Consequently, three assets valued² at \$1,650 could not be located and 21 assets valued at \$69,370 were either not tagged or the asset tag numbers did not agree with the asset records. Furthermore, 10 assets purchased in 2015-16 valued at \$57,573 were not recorded on the asset list and nine assets valued at \$45,750 were listed as disposed of but were still in service. We also found that 18 of 20 assets listed as disposed of, valued at \$32,920, did not have documentation indicating authorization or approval. As a result, District officials do not have assurance that all District property is accounted for properly.

¹ At year-end, the District sends the asset list to the asset vendor who compiles the information in a database and calculates depreciation for all assets valued at \$5,000 or greater. The asset vendor then provides the District with accounting, depreciation, additions, disposals and insurance reports.

² Near the end of 2013-14, the District hired an asset inventory and valuation firm. The firm recorded each asset at its original cost (if known) and, if unknown, at its replacement cost (the cost required to produce a property of like kind) as of June 30, 2014.

Policies and Procedures

District officials should develop a written policy to ensure that capital assets are adequately protected from loss, waste or misuse. A written policy, adopted by the Board, should communicate management's objectives and the duties, records and procedures required to achieve these objectives. The policy should set general procedures and requirements for protecting fixed assets. It should also establish the minimum value of assets to be tracked for inventory control.

The District does not have an asset policy or written procedures establishing capitalization or tagging thresholds, controls over assets, or how to maintain the records for assets. However, the IT department has written procedures specific to the maintenance of IT inventory. Although the IT procedures address the process for adding assets to the IT inventory database, they do not establish tagging thresholds or the process for adding assets to the District's asset list. According to District officials, the District accounts for assets based on known procedures that have been followed for years. By not having a formal asset policy, District officials do not have guidance on how to ensure that assets are protected from loss, waste or misuse.

Asset Tracking

Each asset should be assigned an identification number using a tag, decal or stenciling, affixed to each asset. Any identification tag should also have the name of the District on it. Asset tags improve the ability to differentiate between assets and can provide a deterrent for improper use. District officials are responsible for ensuring fixed assets are tagged and located in the most recent department of record.

We selected 40 assets valued at \$110,510 from the asset list to determine if they were in the District's possession. District officials could not locate three assets valued at \$1,650. These assets consisted of a tablet computer, a desktop computer and a laptop computer. According to the junior network engineer, the desktop computer has been disposed of, but the District did not have any documentation indicating its disposal. District officials presented a laptop with the same tag number as the one selected; however, the serial and model numbers are different from the numbers in the asset records.

Asset Tagging — Of the 37 assets we located, 21 assets valued at \$69,370 were either not tagged or the asset tag numbers did not agree with the District's asset records. The 16 assets that were not tagged were valued at \$65,390. District officials could not explain why these assets were not tagged and told us it is possible the tags fell off the assets.

Five assets valued at \$3,980 had tag numbers that did not agree with District asset records. These consisted of two tablet computers, two desktop computers and one laptop computer. District officials could

not explain why these assets had tag numbers that did not agree with the asset records.

When assets cannot be located, District officials do not have assurance that all property can be accounted for. When assets are not properly tagged, they are more susceptible to loss or theft.

Asset Records

Asset protection begins with quality record keeping. Detailed property records help establish accountability, allow for the development of additional controls and safeguards and can impact the various costs (insurance, replacement, etc.) associated with owning assets. For these reasons, records must be complete, accurate and up-to-date.

We selected 10 assets purchased during 2015-16 valued at \$57,573 and found they were not recorded on the asset list. According to the office assistant, she tries to record non-IT assets on the asset list on a quarterly basis. Three of the five non-IT assets selected were purchased in the first quarter of the fiscal year but were not recorded on the asset list. District officials told us that IT assets are recorded on the asset list at the end of each year; therefore, none of the IT assets selected were added to the asset list.

We also selected 10 assets valued at \$61,640 that were recorded as disposed of prior to the end of their useful life and found eight assets valued at \$44,860³ were still in service, according to IT inventory records and District officials. The eight assets included two televisions, three desktop computers and three copiers. Without accurate and up-to-date fixed asset records, District officials cannot ensure that District assets are protected against loss or unauthorized use.

Disposal of Assets

Building administrators and department heads are responsible for identifying obsolete or surplus equipment and developing a list of assets to be disposed of. The disposal list should be sent to the Assistant Superintendent for Business who reviews it and forwards it to the Board for approval.

We selected 20 assets valued at \$35,460 listed as disposed of in 2014-15. However, District officials could not provide documentation for 18 assets, valued at \$32,920, indicating authorization or approval of the disposals. In addition, one asset is still in service. The asset is a laptop computer valued at \$890. Because District officials do not maintain adequate records for asset disposals, they do not have assurance that District property is accounted for properly.

³ In total, there were nine assets valued at \$45,750 that were listed as disposed of but still in service: eight assets valued at \$44,860 from Asset Records and one asset valued at \$890 from Disposal of Assets.

Recommendations

The Board should:

1. Adopt a written policy that establishes capitalization or tagging thresholds, controls over assets and how to maintain the records for assets.
2. Authorize all asset disposals.

District officials should:

3. Ensure all fixed assets above the established thresholds have a tag affixed identifying them as District properties.
4. Review the asset list each year to ensure that tag numbers on the list match the tag numbers on the assets.
5. Establish procedures for the timely, complete and accurate tracking of inventory.
6. Locate the missing inventory items identified in this report.
7. Maintain accurate and up-to-date asset disposal records.

APPENDIX A

RESPONSE FROM DISTRICT OFFICIALS

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

May 6, 2016

Ms. Tenneh Blamah, Chief Examiner
Office of the State Comptroller
33 Airport Center Drive – Suite 103
New Windsor, NY 12553-4725

Dear Ms. Blamah:

The Somers Central School District is in receipt of the Draft Audit Report, “Fixed Assets”, for the period of July 1, 2014 – December 1, 2015. We would like to take this opportunity to express our agreement with the audit findings and to thank the Comptroller’s Office Audit Examiners for their professionalism, insight and expertise. The audit was a thorough, detailed and extensive process requiring much detailed information to be provided to the examiners.

The District is committed to conducting all financial matters in a responsible, transparent manner for the benefit of the Somers community. The critical lens of the audit will only serve to enhance the ongoing manner in which the District conducts its financial affairs.

The audit was a risk assessment review with a focus on an evaluation of the District’s internal controls. The examiners reviewed Employees Retirement Systems’ payroll reporting, cash receipts, cash disbursements, payroll and payroll procedures, purchasing including purchasing policies and compliance with purchasing policies, internal controls and user access rights over financial accounting software, segregation of duties within the business office, claims auditing, internal controls over information technology systems, information technology disaster recovery, budgeting practices, fund balance and financial conditions, reserve levels and tax levy cap compliance. After this extensive risk assessment which resulted in no findings of operational improprieties, fraud or abuse the examiners then focused their audit on Fixed Assets.

See
Note 1
Page 11

For the Somers CSD, fixed assets can be defined as equipment, technology equipment or machinery having a dollar value greater than \$500. By June 30th of each school year, the Business Office updates the equipment purchases to our master inventory list and transmits this information to our fixed asset vendor. Much of this information is used for insurance purposes and to generate depreciation figures used in our financial reports.

Asset Tagging - The District does not routinely tag large pieces of Building & Grounds equipment such as a snow plow, a tractor, a carpet extractor, floor cleaning machines, and an air compressor, a ride-on lawn mower, a welding machine as asset tags affixed to this type of machinery usually fall off, especially tags affixed to equipment to be used outdoor or fixed technology equipment such as a rack server. The audit cited the District for 16 assets not tagged. Of the 16 items not tagged, eight items were large pieces of Building & Grounds equipment and two large pieces of technology equipment, as per the above. The other six items should have been tagged.

Asset Records - The ideal would be to have assets recorded to the fixed asset inventory on a quarterly basis but this is not always the case. The audit cited the District for 10 items purchased between 7/29/2015 and 10/29/2015 as assets not recorded. These assets would be recorded and submitted to our fixed asset vendor by June 30th.

District Administration
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Ms. Tenneh Blamah, Chief Examiner

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May 6, 2016

Corrective Action Plan:

1. Audit Recommendation – Adopt a written policy that establishes capitalization or tagging thresholds, controls over assets, and how to maintain the records for assets.

Implementation Plan – The Board of Education at its April, 19, 2016 meeting adopted a Capital Asset Policy as per the audit recommendation.

2. Audit Recommendation – Authorize all asset disposals.

Implementation Plan – The Business Office will work more closely with the Technology Office or other departments to ensure all surplus assets are Board approved prior to disposal.

Persons Responsible for Implementation – Assistant Superintendent for Business, Director of Technology, Superintendent of Schools

3. Audit Recommendation – Ensure all fixed assets above the established threshold have a tag affixed identifying them as District property. Review the asset list each year to ensure that tag numbers on the list match the tag numbers on the assets. Establish procedures for the timely, complete and accurate tracking of inventory. Locate the missing inventory items identified in this report. Maintain accurate and up to date asset disposal records.

Implementation Plan – The Business Office will periodically audit the inventory to ensure asset tags or other identification markings are affixed to inventory items identifying them as District property. In the case of Buildings & Grounds outdoor equipment we will etch identification markings onto this machinery. A review will be done by Business and Technology Office staff to ensure asset tag numbers match asset tag numbers on the assets. We did locate the missing or incorrectly tagged assets. We will change procedures to ensure that more accurate and up to date disposal records are maintained by updating inventory records on a quarterly basis.

Persons Responsible for Implementation – Assistant Superintendent for Business, Director of Technology, Superintendent of Schools

The District's Board of Education and Administration thank the State Comptroller's Office for executing a thorough and professional audit review. All District officials take great pride in responsibly managing our taxpaying public's funds. This audit will only serve to enhance our efforts in this responsibility.

 Sincerely,


Dr. Raymond H. Blanch
Superintendent

RHB/nc

cc: Members, Board of Education

District Administration

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APPENDIX B

OSC COMMENT ON THE DISTRICT'S RESPONSE

Note 1

Our audit process involved conducting an initial risk assessment of the District's operations, which included the operational areas mentioned in the response. Using the results of our risk assessment, we decided on the reported objective and scope. We did not audit the other operational areas and, therefore, the audit report cannot state that there were no other findings of operational improprieties, only that the risk associated with those areas was low.

APPENDIX C

AUDIT METHODOLOGY AND STANDARDS

To achieve our audit objective and obtain valid evidence, we performed the following procedures:

- We reviewed IT department procedures pertaining to assets.
- We reviewed records pertaining to fixed assets.
- We interviewed District personnel to obtain an understanding of fixed assets processes and procedures.
- We selected 40 fixed assets valued at \$110,510 from the District's asset list to determine if they were in the District's possession and tagged properly by tracing each asset's recorded identification tag number to the identification tag affixed to the asset. We selected our sample based on asset type, acquisition date and cost, and to include 29 IT assets and 11 other assets, such as buildings and grounds equipment, custodial equipment, health services equipment and athletics equipment.
- We selected 10 assets valued at \$57,573 from the 2015-16 cash disbursement data to determine if the assets were recorded on the asset list. We selected our sample to include various types of assets, such as athletics equipment, vehicles, buildings and grounds equipment and IT equipment.
- We selected 10 assets valued at \$61,640 that were disposed of prior to the end of their useful lives. We selected our sample based on asset type, useful life and length of asset use. Each IT asset disposal was compared to the IT inventory to determine if they were still in service.
- We randomly selected 20 assets valued at \$35,460 that were listed as disposed of to determine if they were actually disposed of and if the disposals were authorized. We compared our sample to the IT inventory to determine if any of the assets were still in service.

We conducted this performance audit in accordance with GAGAS. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

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