

Little Flower Union Free School District

Fixed Assets

AUGUST 2022



OFFICE OF THE NEW YORK STATE COMPTROLLER
Thomas P. DiNapoli, State Comptroller

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Report Highlights

Little Flower Union Free School District

Audit Objective

Determine whether Little Flower Union Free School District (District) officials properly recorded and accounted for fixed assets.

Key Findings

The Board of Education (Board) and District officials did not ensure fixed assets were recorded and accounted for properly.

- A physical inventory check has not been performed since June 26, 2018. Poor fixed asset controls and the lack of regular inventory checks contributed to:
 - 231 assets that cost \$48,700 were not in the District's inventory records.
 - 175 assets that cost \$179,000 were not accurately recorded in the inventory records and assigned tag numbers.
 - 37 assets that cost \$25,496 are lost and unaccounted for. These assets include nine desktop and 17 laptop computers.
- The fixed asset policy was not comprehensive or being followed, and there were no procedures to ensure asset tags were affixed to assets.

Key Recommendations

- Establish adequate controls to safeguard and account for the District's fixed assets.
- Maintain accurate and up-to-date inventory records and perform physical inventories.

District officials disagreed with certain findings in our report. Appendix B includes our comments on issues District officials raised in their response.

Background

The Little Flower Union Free School District is a special act public school established to provide educational services to students with special education needs. It is located in the Town of Riverhead in Suffolk County. The District is governed by a nine-member Board.

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 District's day-to-day management under the Board's direction.

The Assistant Superintendent for Business was responsible for the accounting and inventorying of fixed assets and affixing or distributing asset tags.

Quick Facts

Number of Fixed Assets

Inventoried	692
Tested	143

Cost of Fixed Assets

Inventoried	\$703,882
Tested	\$107,688
Not Properly Accounted For	\$25,496

Audit Period

July 1, 2020 – December 31, 2021. We extended our audit period to July 1, 2018 to establish the total value of the District's fixed assets.

Fixed Assets

Fixed assets are generally those that have a more than a nominal value when acquired and a useful life of more than one year. They can include everything from buildings and land, parking lots, machinery, vehicles and furniture to computer equipment and software. Consequently, they represent a significant investment of school district resources. Detailed records help to establish accountability and allow for the development of additional controls and safeguards. The accuracy and completeness of these records can also impact the various costs associated with fixed assets, such as insurance and replacement. For these reasons, fixed asset records should be complete, accurate and up-to-date.

How Should School District Officials Record and Account for Fixed Assets?

A board should adopt comprehensive written fixed asset and disposal policies to ensure officials properly account for and safeguard assets, and properly dispose of obsolete or surplus assets in a safe manner. In addition, the board should designate someone as the property control manager who should be responsible for tracking the district's fixed assets, ensuring the accuracy and usefulness of the asset records, and establishing detailed procedures for fixed asset protection.

Procedures should include establishing dollar value thresholds to identify assets that should be recorded and tagged with an asset identification tag or decal. Asset tags with unique numbers improve the ability to differentiate between assets, making them easier to track. Also, computers, servers, tablets and other electronic assets should be wiped clean of information before they are disposed of or transferred to another user.

Furthermore, assigned employees should schedule and conduct periodic physical inventories to ensure that all assets listed as being under their control are still located within their department. The property control manager should conduct an unscheduled physical inventory in at least one department per year, ensuring that all departments have a physical inventory within a three-to-four-year period.

The District Does Not Have a Comprehensive Policy for Identifying and Recording Fixed Assets

In 2015, the Board established a policy for the accounting, inventorying and tracking of fixed assets. However, the policy lacks threshold values for tagging and inventorying assets. In addition, the policy designated the position of Assistant Superintendent for Business as the property control manager. When this position was eliminated in April 2021, the policy was not updated. Therefore, no one person is responsible for recording and tracking fixed assets and arranging for an annual inventory and appraisal of District property.

Asset tags
with unique
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between
assets. ...

In addition, asset records have not always been kept up-to-date and the most recent full physical inventory check was performed on June 26, 2018, with an effective date of June 30, 2018 for the appraisal. The Superintendent told us that due to the multiple changes in officials overseeing the business office, the management of the District's assets was not always adequately overseen.

Without comprehensive written procedures for identifying, recording and periodically performing fixed asset inventory tests, District officials lack assurance that assets are being properly accounted for and are sufficiently protected from loss, waste or misuse.

Fixed Assets Were Not Properly Recorded and Accounted For

The District uses inventory management software to inventory and track fixed assets. The software utilizes physical asset tags with barcodes that can be read electronically during a physical inventory. The former Assistant Superintendent for Business or a contracted accounting firm updated the inventory software records based on purchases.

Because of the lack of adequate policies and procedures over the inventorying of fixed assets, we examined purchase orders for assets over \$500 and high risk inventory items such as technology equipment, that were purchased from July 1, 2018 through December 31, 2021. We identified 406 assets¹ with combined purchase prices of approximately \$227,700 to determine whether they were included on the District's inventory list. We found there were no procedures in place to ensure assets were properly recorded in the District's inventory software and that assets tags were affixed to them. Fixed assets were not properly accounted for as follows:

- 231 assets with a combined purchase price of approximately \$48,700 were not on the inventory list. These assets included laptop computers, computer equipment, furniture, tools and various other assets. The Board did not establish an inventory recording and tagging threshold. As a result, there were no consistent procedures for adding assets to District records, District personnel used their professional judgment when adding assets to the inventory list and officials were unaware that these assets were not properly inventoried or tagged.
- 175 assets with a combined purchase price of approximately \$179,000 were added to the inventory list, but the inventory records were incomplete or inaccurate. For example, the locations of these items were not recorded and 95 assets were not properly tagged because some tag numbers were assigned to multiple items. For example, these assets included 30 computers

¹ Refer to Appendix C for further information on our sample selection.

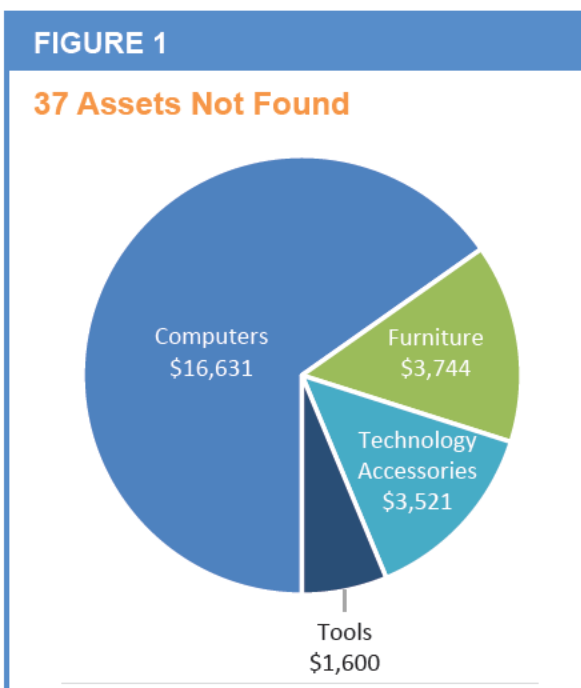
purchased in a single transaction but only one computer was added to the inventory record. This computer was assigned an erroneous inventory tag number and its cost was entered as \$25,159, the value of all 30 computers.

- 119 of the 175 items with a combined purchase price of approximately \$82,200 did not follow the sequence of the tags added before or after. The School Business Assistant told us that those tags did not physically exist and may have been used by the former Assistant Superintendent for Business to just add items to the records for accounting purposes.
- 56 of the 175 items, with a combined purchase price of approximately \$96,700, had traditional tag numbers assigned to them, but the physical tags were still with the School Business Assistant. The Superintendent stated the accounting firm had added the items to the inventory records for accounting purposes but did not physically tag the items.

In addition, we selected 143 asset items totaling \$107,688 and performed a walkthrough of the main school building to determine whether the assets were in the District's possession. This included assets listed in the inventory records and assets purchased that had not been entered in the inventory records. We were able to locate 106 of these assets, but found the following deficiencies:

- 37 assets with a combined purchase price of \$25,496 could not be located. Computers, including nine desktops and 17 laptops, comprised the most significant category of missing assets (65 percent) (Figure 1).
- 90 assets did not have tags affixed to them (86 computers, one virtual-reality headset, one floor scrubber and two refrigerators). The District Treasurer, who received and distributed these computers and the electronic devices, told us that he was unaware that these items needed to be tagged. The maintenance worker that was responsible for the other items is no longer with the District. Therefore, officials were unable to provide an explanation as to why these other items were not tagged.

37 assets with a combined purchase price of \$25,496 could not be located.



The Superintendent and Treasurer told us they did not maintain adequate records of the computers but believed some items had been disposed of without notifying the business office to update the inventory list. However, the Superintendent was unable to provide supporting documentation to show that the assets had been approved for disposal.

Without accurate and up-to-date fixed asset records, District officials cannot ensure that District assets are protected against loss or unauthorized use. Furthermore, when assets are not tagged and identified as District property, there is a greater risk that assets could be lost or misplaced.

What Do We Recommend?

The Board should:

1. Formally establish a dollar threshold for recording and tagging fixed assets.
2. Designate a property control manager to maintain an up-to-date inventory of fixed assets.

District officials should:

3. Ensure the inventory list is accurate and up-to-date.
4. Ensure that all fixed assets recorded on the inventory list are immediately and appropriately tagged to identify them as District property.
5. Ensure that all staff who manage the District's inventory are aware of their responsibilities related to the District's fixed asset inventory and fixed asset disposal policies.
6. Ensure that all assets that have been disposed of are removed from the District's inventory list.
7. Ensure that surplus assets are approved by the Board before disposal and retain documentation indicating that the assets were approved for disposal.
8. Conduct a complete physical inventory and ensure that periodic physical inventories are conducted at the frequency set in Board policy.

Appendix A: Response From District Officials

Harold J. Dean, Ed.D.
Superintendent of Schools

Robert J. Scappatore
Principal

Michael C. Gordon
Assistant Principal / Director of Special Education

Kathleen A. Nolan
School Business Assistant / District Clerk



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July 19, 2022

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Ira McCracken, Chief Examiner
NYS Office Building, Room 3A10
250 Veterans Memorial Highway
Hauppauge, NY 11788-5533

Dear Mr. McCracken:

The Little Flower Union Free School District has received and reviewed the draft Fixed Assets Report of Examination (2022M-078). On behalf of the Little Flower Board of Education and administrative staff, we appreciate the work and professionalism demonstrated by the audit team. They were receptive to our perspective and positions throughout the audit, including the findings of the audit. Please accept this letter as the District's response to the draft audit report.

We acknowledge that a physical inventory was not conducted since June 26, 2018, as noted in the report. This was performed by Questar III BOCES, who recommends a physical inventory be completed every five years. The audit review period of July 1, 2020 through December 31, 2021 falls within the five-year recommendation between physical inventories, so the District was not out of date for physical inventorying. We have also scheduled a physical inventory with Questar III BOCES for spring/summer 2023, and additionally, completed a re-inventory by Questar III BOCES which took place on June 1, 2022. We also intend to engage Questar III BOCES in re-inventory of assets on a regular basis after the next physical inventory as a new practice for property management.

We acknowledge that our asset controls did not fully account for all assets acquired, retired, or disposed of within the audit period. Having used a mix of asset management software [REDACTED], along with an internal spreadsheet system, allowed items to be improperly inventoried, increasing risk of loss. This was remedied by the designation of a new property manager, after the former two retired and left the District, and providing training on the recording and tagging of assets and management of the software noted above for the new property manager.

We acknowledge that Board Policy 5620, adopted March 2016, was not fully implemented in regard to inventory and asset tagging protocol due to a non-designation of a property manager. As noted above, a property manager has been designated and the District is currently undergoing a policy manual update which will reflect new practices to properly maintain assets.

We acknowledge that assets were not properly identified as retired or disposed according to policy. As discussed with the audit team during a second walkthrough to identify assets originally categorized as unaccounted for, a large number of laptops and desktops reserved for parts and repair were shown to the audit team. These items will be taken out of service and/or disposed through Board action and designated as such in the inventory record, significantly reducing the number of items designated as unaccounted for.

See
Note 1
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We acknowledge that several laptop/desktop computers are unaccounted for. At the start of the pandemic and school closures, in March 2020 as the District pivoted to remote learning, we rolled out devices to our residential population. Given the transiency of our population as a residential special act school district, students left the district during the closures and under remote learning without returning said devices, which we had to account for as a lost asset.

The District does wish to address the values placed on the items tested and ultimately designated as not properly accounted for, totaling \$25,496, as misleading to a citizen simply reading this report. Included in the inventory, when the audit team extended its audit period to July 1, 2018, were items over a decade old and still assigned their purchase value. One example is a Canon GL2 handheld camcorder purchased for over \$2000 in 2008, which now has a zero-dollar value and was included in the “unaccounted” items as having that original purchase value. This is the same penalty and misrepresentation for multiple items in this list – laptops, desktops, other classroom technology, and furniture and over 10 years old represented at their original purchase price(s) instead of a depreciated value.

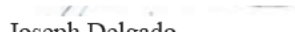
See
Note 2
Page 8

The District wishes to again thank the audit team for their work. Helping identify an area of improvement is appreciated, and we are confident the corrective actions and changes noted above will result in a fully-implemented and policy-aligned asset management practice.

Lastly, the District would like to acknowledge that after the audit team concluded their risk assessment for the current audit, the tuition billing and receivables was not selected like the prior two Comptroller audits. We believe that this is due to evidence that successful changes enacted in our business office and District procedures since that time properly addressed previous concerns.

Sincerely,

Dr. Harold J. Dean
Superintendent of Schools


Joseph Delgado
President
Little Flower Board of Education

Appendix B: OSC Comments on the District's Response

Note 1

During the second walkthrough, three of the sampled computers were found and considered accounted for. While officials showed us a number of computers reserved for parts, they were not able to locate the 37 assets listed in the report.

Note 2

Assets may be of use regardless of depreciation value and replacing these missing items can be costly. Officials did not properly account for certain items we tested and did not properly perform physical inventory counts. As a result, officials do not know when the items went missing or their value at that time. The audit report indicates purchase price was used for assets tested.

In addition, each camcorder cost \$800. Therefore, one \$800 camcorder, not a \$2,000 camcorder, was included in the items that could not be located. The total purchase price of the missing items was \$25,496.

Appendix C: Audit Methodology and Standards

We conducted this audit 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. To achieve the audit objective and obtain valid audit evidence, our audit procedures included the following:

- We interviewed District officials and reviewed District policies and the Board's minutes and resolutions to gain an understanding of and evaluate the adequacy of fixed asset policies and procedures.
- We reviewed asset reports from the 2017-18 fiscal year to determine the value of fixed assets at the beginning of our audit period.
- We reviewed cash disbursements data for the audit period and identified purchases that appeared to be for fixed assets. We then reviewed the related invoices to identify any assets purchased that exceeded a threshold of \$500, were high-risk inventory items such as technology equipment, or were similar items purchased that exceeded this threshold and should have been included on the inventory list.
- From the 406 assets purchased during the audit period, we selected a sample of 111 assets (29.3 percent) and also selected a sample of 32 assets (10 percent) listed in the inventory records to perform a walkthrough of the District building to determine whether assets purchased actually existed, and whether assets were properly tagged and recorded.
- We examined inventory records to determine whether physical inventories were conducted, how often and by whom.

We conducted this performance audit in accordance with generally accepted government auditing standards (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.

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.

The Board has the responsibility to initiate corrective action. 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, 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. 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 CAP should be posted on the District's website for public review.

Appendix D: Resources and Services

Regional Office Directory

www.osc.state.ny.us/files/local-government/pdf/regional-directory.pdf

Cost-Saving Ideas – Resources, advice and assistance on cost-saving ideas

www.osc.state.ny.us/local-government/publications

Fiscal Stress Monitoring – Resources for local government officials experiencing fiscal problems

www.osc.state.ny.us/local-government/fiscal-monitoring

Local Government Management Guides – Series of publications that include technical information and suggested practices for local government management

www.osc.state.ny.us/local-government/publications

Planning and Budgeting Guides – Resources for developing multiyear financial, capital, strategic and other plans

www.osc.state.ny.us/local-government/resources/planning-resources

Protecting Sensitive Data and Other Local Government Assets – A non-technical cybersecurity guide for local government leaders

www.osc.state.ny.us/files/local-government/publications/pdf/cyber-security-guide.pdf

Required Reporting – Information and resources for reports and forms that are filed with the Office of the State Comptroller

www.osc.state.ny.us/local-government/required-reporting

Research Reports/Publications – Reports on major policy issues facing local governments and State policy-makers

www.osc.state.ny.us/local-government/publications

Training – Resources for local government officials on in-person and online training opportunities on a wide range of topics

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