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Bethlehem Central School District:
2016/17 Fixed Assets Audit



July 3, 2017

Board of Education
Bethlehem Central School District
700 Delaware Avenue
Delmar, NY 12054

We have completed the annual testing of controls for the Bethlehem Central School District. One of the requirements of the 2005 School Financial Oversight and Accountability legislation is ongoing testing and evaluation of the District's internal controls. Our engagement was designed to evaluate the adequacy of internal controls over Fixed Assets to ensure they are appropriately designed and operating effectively and efficiently. And, to provide a report with recommended changes for strengthening controls and reducing identified risks.

The purpose of the audit was to review the internal controls that the District has in place to prevent errors, detect fraud and ensure that financial reporting is accurate and that the District assets are safeguarded.

RELIABILITY OF INFORMATION

In performing our engagement, we obtained a sample from the population of transactions to test the accuracy and reliability of information provided by District personnel.

As noted, the purpose of our engagement was to assist you in improving the process by which you monitor and manage the risks that face the District. Any findings and recommendations in the attached report are the responsibility of the District to implement, accept the risk as identified, or implement alternative controls that will mitigate the risk to a level that is acceptable by the District. Ultimately, it is your responsibility to assess the adequacy of your risk management system.

DISTRIBUTION OF THE REPORT

This report is intended solely for the information and use of the Board of Education and management of Bethlehem Central School District and should not be used for any other purpose.

We appreciate the opportunity to serve you and thank the individuals in your organization for their cooperation. Over time, it will be necessary to reassess your risks to ensure that they have not changed and to ensure that your risk management system is functioning properly. Through our ongoing involvement with you as a client and our knowledge of your District and its processes, we are in a unique position to assist you with that process. Please contact us at any time should you desire such services.

Sincerely,

Kenneth R. Ziobrowski

Kenneth R. Ziobrowski, CIA, CFE
Questar III

ENTITY NAME	Bethlehem Central School District
REPORT DATE	October 19, 2016
PROCESS REVIEWED	Transportation, O&M, Fleet, & Information Technology Fixed Asset Inventory
PERSONNEL INTERVIEWED	Phyllis L. Albano, District Treasurer / Business Administrator Cindy Jurewicz, Director of Transportation John Biszick, Assistant Director of Transportation John Hazelton, Assistant Transportation Supervisor Gregg D. Nolte, Director of Facilities & Operations Elisa Peters, Secretary of Operations & Maintenance Sal DeAngelo, Director of Information Technology Justin Brown, Information Technology Supervisor
SCOPE OF WORK	<p>Reviewed the accountability of fixed assets regarding Transportation, O&M, Fleet Vehicles, and Information Technology from September 1, 2015 to September 30, 2016. In some instances, we reviewed the accountability of the fixed assets that have been in existence prior to our testing period (Transportation, O&M, Information Technology, and Fleet Assets):</p> <p>Performed a physical inventory from a sample of each department regarding pre-existing and newer purchased items classified by the District as a fixed asset:</p> <ul style="list-style-type: none"> • Transportation district owned tools and equipment: tested all existing items regarding inventory accountability which included fixed assets purchased during fiscal year 2015/16. Additionally, we tested the accountability of 7 fleet vehicles from a population of 136; • Operations and Maintenance district owned tools and equipment: tested a sample of 48 new and existing items from a population of 207 designated as fixed assets during fiscal year 2015/16. Additionally, we tested the accountability of 15 fleet vehicles from a population of 31; • Information Technology district owned assets: tested a sample of 55 new and existing items from a population of 6,151 designated as fixed assets during fiscal year 2015/16; • Tested a sample of 5 assets regarding Information Technology, whose description appeared to be a fixed asset, from a population of 77 assets designated for disposal and approved by the Business Administrator; • Tested a sample of 9 items to identify if Special Education Student Services records properly reconciled with the FileMaker database; and, • Tested 8 fleet vehicles that were sold on 7/12/2016 & 8/4/2016 to ensure Versa Trans was updated and the money received was reported in Finance Manager. Additionally, we also verified if the District received a credit regarding insurance premiums for the 8 vehicles that were recently auctioned.
SCOPE RESTRICTIONS	No Restrictions Noted
AUDIT OBJECTIVES	<ul style="list-style-type: none"> • Evaluate the fixed asset inventory process and applicable internal controls to ensure it is operating effectively and efficiently;

	<ul style="list-style-type: none"> • Evaluate the District’s process for tracking, accounting, and reporting the fixed assets inventory; and • Ensure fixed asset disposals are properly approved and reported to the Business Office.
<p>KEY PROGRAM CONTROLS</p>	<p>The District has created the following key program controls designed to meet business obligations, provide accountability, and promote operational effectiveness & efficiency:</p> <ul style="list-style-type: none"> • The Board of Education (BOE) has adopted board policies 6645: Capital Assets; and 6900: Disposal of District Property; • The District classifies fixed assets at \$2,000 and above, which are assigned a bar coded asset tag and indicates “Property of Bethlehem CSD,” which are accounted for in the Finance Manager database. In addition, there are items valued less than the threshold but may be desirable for personal use, such as technology devices, tools, and equipment which are recorded in separate databases; • At fiscal year-end, the Information Technology department updates their listing of fixed assets by scanning the district bar codes in order to update the FileMaker database records; and • The Chief Business and Financial Officer approves all fixed assets designated for disposal. The disposal listing is used to update asset records per the applicable department. The District uses Public Surplus for those items that are sold on public auction.
<p>OBSERVATIONS AND RECOMMENDATIONS</p>	<p><u>Observation 1:</u> The transportation department has not established a formal inventory accountability process regarding district owned tools and equipment. For the audit, the transportation department provided a Microsoft Word document that listed a total of 4 items on hand. The list included the description of the item, the model #, and the approximate date it was acquired. Two of the four newer purchased items listed on the Word document were not properly tagged. According to the Assistant Supervisor of Transportation, the estimated value of these two items were believed to be valued between \$3,000 and \$6,100. Board Policy 6645; <i>“All fixed assets carrying a minimum value of \$2,000 that have a useful life of five years or more, and physical characteristics, which are not appreciably affected by use or consumption shall be recorded. Fixed assets shall include land, building and equipment. All assets will be recorded at cost or fair market value at the time of acquisition. Recordable cost shall be the invoiced price including all necessary costs incurred to place the asset in service, (i.e. shipping, handling, freight, duties, registration fees, installation costs or insurance during transit)”</i>. The transportation department is not maintaining sufficient records to be in compliance with board policy 6645. Additionally, we visually identified at least 15 items that were not recorded as district owned tools and equipment. For example, two moveable items; KL-20 Kwiklifts were not marked as “Property of Bethlehem CSD.” The 15 additional items were identified by the transportation department supervisor who verbally communicated this information during the audit.</p> <p><i>Recommendation: The transportation department should develop a more formal process and program to improve the inventory accountability and ensure the items are properly marked as district property. For the items above the \$2,000 threshold, the transportation department should make the necessary changes to ensure they comply with board Policy 6645. The inventory record should be updated when new items are added, existing items have been modified, or older</i></p>

items have been disposed of.

Observation 2: The District has not assigned a specific individual to maintain day-to-day updates to the Operations & Maintenance (O&M) tools & equipment inventory accountability. It was noted that the head custodians at each building are responsible for updating the O&M inventory (de-centralized process). Prior to our audit, we noted that the O&M inventory, which is maintained on an Excel spreadsheet, has not been updated since 2012. During the audit, O&M provided several versions of inventory accountability spreadsheets, which indicated that the records were being updated during the course of the audit. Fixed asset accountability begins with quality record keeping. Detailed property records help 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 (insurance, replacement, etc.) associated with owning fixed assets.

Recommendation: Fixed asset accounts should be complete, accurate and up-to-date. The District should assign an appropriate individual (asset coordinator) to ensure newly acquired assets are assigned and affixed an asset tag, bar code sticker when placed into service. The fixed asset database should be updated to reflect the change as they occur on a routine basis.

Observation 3: The Special Education Student Services (SESS) department maintains their own inventory records for IT equipment purchased to service students' special needs. The SESS department maintains a separate listing of IT equipment for special education purposes by recording this information in an excel spreadsheet and the use of Open Source Automated Library System. We noted that the SESS department shares inventory data with Information Technology by allowing the department to access data through a shared drive. When comparing the records from SESS and the records provided by IT, we were unable to reconcile four 13.3 inch Macintosh Air 8 GB devices. The use of recording fixed assets in two databases can create inconsistencies.

Recommendation: The District should assign one department the responsibility for maintaining all information technology inventory. The segregation between the two departments can create inconsistencies for the overall accountability for IT fixed assets.

Observation 4: During our testing of Operations & Maintenance new and pre-existing assets, we noted the following issues:

- We were unable to find or confirm the existence of 13 assets or 29% from the sample:
 - One asset was believed to be disposed of: Dewalt 18V Cordless Drill that was replaced with a Porter Cable Drill, but was not reflected in the inventory records;
 - We were unable to find 12 assets: (2) Hawk Floor Scrubbers, Clarke Burnisher, (2) Windsor Snail Fan, Stihl Trimmer, (2) Windsor Versamatic Plus Vacuums, Countryline 48" Fan, (2) Windsor Versamatic Vacuum, Carpet Extractor;
- 23 assets we found meeting the description but were missing a District asset tag: Pioneer Eclipse Carpet Floor Fan, (2) Windsor Versamatic Vacuums, Porter Cable Saw, Stihl Leaf Blower, (3) Minuteman Floor Fans, Stihl Trimmer, Ridged Shop Vacuum, IPC Eagle Riding Auto Scrubber, (2)

ProTeam Backpack Vacuums, Tenant T3 Floor Scrubber, Task Force Leaf Blower, Porter Cable Drill, Windsor Versamatic Plus Vacuum, Proteam Supercoach HEPA Vacuum, Tornado Burnisher, Dayton Wet/Dry Vacuum, Black & Decker Leaf Blower, Maytronics Dolphin 3001, Windsor Admiral Rub Shampoo Machines.

- We identified 6 items where either the model # or serial # was not updated per the departments records; Windsor Versamatic Vacuum, (2) Kubota Lawn Tractors, Porter Cable 18V Drill, Pioneer Eclipse Floor Fan, IPC Eagle Riding Auto Scrubber.
- We identified a 2016 Kubota Tractor that was purchased 3 weeks prior to our walkthrough, but was missing a district tag or property identification.

During our testing of Information Technology new and pre-existing assets, we noted the following issues:

- We were unable to find or confirm 1 asset from our sample; Zenith DVD/VCR combo;
- We identified 7 instances where either the serial #, model #, or location of the item was incomplete according to the FileMaker records; (2) Dell 2009w, Ricoh Aficio, Apple iMac, Dell 1908fpt, Dell Latitude 3450, Dell 2350dn;
- We also identified 3 instances where chromebook carts were left unlocked, unattended, and unsecure. The chromebook carts were located in either a hallway or in an unlocked vacant room.

During our testing of Information Technology disposed assets, we noted the following issues:

- We identified 1 instance where the item was said to have already been auctioned, but we located the item in the Middle School basement; Dell Latitude D630.

Additionally, the District does not use an asset transfer/disposal form when items are moved from one facility to another or designated for disposal. The form, when properly completed, would allow the asset coordinator to update the database with current and accurate information.

Recommendations: A physical inventory is the only way to establish initial accountability. Such an inventory is required when establishing a fixed asset accounting system, and periodically thereafter to ensure the system's continued accuracy. Taking an inventory involves making a physical inspection or otherwise ascertaining the existence of capital assets and listing them in some systematic manner.

To maintain the accuracy and completeness of recorded amounts, departmental supervisors or their representatives should conduct periodic follow-up inventories of all fixed assets. These counts are best completed at a time during the fiscal year when they will not interrupt normal operations. Where there is rapid turnover of inventory items, periodic inventories should be performed more frequently. The results of these inventories should be compared to detailed inventory records and the results submitted to the asset coordinator. This need not be done every year for each department but should be done in some of the departments each year. Over a three or four-year period, physical inventories should be performed for all departments.

	<p><i>To save time in locating identification markings, the tags should be affixed on a location of the asset where scanning can be easily accomplished.</i></p> <p><i>Each time assets are moved from one location, the responsible department should complete an asset transfer form to be sent to the asset coordinator for updating the database. The form should include the asset tag #, description, from location, new location, and date of transfer or disposal.</i></p> <p><u>Observation 5:</u> The applicable board policies 6645: Capital Assets and 6900: Disposal have not been updated for 9+ years. Additionally, the District has not established a procedure for how to ensure the protection of lower dollar threshold items that may be more desirable for personal use, district owned tools, equipment, and information technology.</p> <p><i>Recommendation: The District review the board policies and make revisions as necessary. Board policy 6645 establishes a fixed asset threshold of \$2,000. The District should develop a guideline and establish the minimum value of assets to be tracked for departmental inventory control. For high-risk items such as technology devices, office equipment, and tools; a lower dollar threshold may be incorporated into the policy.</i></p>
SUBMITTED BY:	David Leather, Internal Auditor
DATED	10/19/2016

Judith E. Kehoe
Chief Business and Financial Officer
jkehoe@bcsd.neric.org

Bethlehem Central School District

<http://bethlehemschools.org>



TO: Jody Monroe, Superintendent
Audit Committee Members

FROM: Judith E. Kehoe, CBFO 

COPY: Phyllis L. Albano, Treasurer/Business Administrator
Cindy Jurewicz, Director of Transportation
Gregg Nolte, Director of Operations and Maintenance
Sal DeAngelo, Director of Technology
Kathy Johnston, Director of SESS

DATE: June 12, 2017

SUBJECT: Response to Internal Audit Report – Fixed Asset Audit

Recommendation #1: The Transportation Department should develop a more formal process and program to improve the inventory accountability and ensure the items are properly marked as District property. For the items above the \$2,000 threshold, the Transportation Department should make the necessary changes to ensure they comply with Board Policy 6645. The inventory record should be updated when new items are added, existing items have been modified, or older items have been disposed of.

Response: The transportation department will consistently implement the requirements of the policy 6645, and the new policy 6640, upon (re)adoption by the Board.

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Recommendation #2: Fixed asset accounts should be complete, accurate, and up-to-date. The District should assign an appropriate individual (asset coordinator) to ensure newly acquired assets are assigned and affixed with an asset tag or bar code sticker when placed into service. The fixed asset database should be updated to reflect the change as they occur on a routine basis.

Response: All division heads will maintain compliance with Board policies 6640, 6645 and 6900, and will work closely with the business office to properly account for both capital and non-capital assets. Under the direction of the School Business Administrator, periodic verifications of the records will occur.

Recommendation #3: The District should assign one department the responsibility for maintaining all the information technology inventory. The segregation between the Technology and Special Education departments can create inconsistencies for the overall accountability for IT fixed assets.

Response: The Technology office has been assigned responsibility for all technology assets, with the exception of assistive technology devices, for which responsibility has been assigned to the Special Education and Student Services department.

Recommendation #4: Departmental supervisors or their representatives should conduct periodic follow-up inventories of all fixed assets. These counts are best completed at a time during the fiscal year when they will not interrupt normal operations. Where there is rapid turnover of inventory items, periodic inventories should be performed more frequently. The results of these inventories should be compared to detailed inventory records and the results submitted to the asset coordinator.

Response: As per the drafting of new Board Policy 6645, primary responsibility for the tracking of inventories of fixed assets will lie with division heads, with oversight and testing of compliance performed under the direction of the School Business Administrator.

Recommendation #5: The Board Policy 6645 (Capital Assets Accounting) should be reviewed and revised with regards to the fixed asset threshold of \$2,000. The District should also develop guidelines and establish the minimum value of assets to be tracked for departmental inventory control. For high-risk items such as technology devices, office equipment, and tools, a lower dollar threshold may be incorporated into the policy.

Response: The District has drafted a new Board Policy 6640 (Tracking Inventories of Capital and Non-capital Assets). Policies 6645 (Capital Assets Accounting) and 6900 (Disposal of District Property) have been reviewed, with modifications proposed. Upon review of the Audit Committee, the three policies will be submitted to the Policy Committee for review, and ultimately for adoption by the Board. Most notably, the existing \$2,000 capitalization threshold is too low, and is recommended to increase to \$5,000.