

Pelham Union Free School District
Independent Accountant's Report On
Applying Agreed-Upon Procedures
November 18, 2014

**INDEPENDENT ACCOUNTANT'S REPORT ON
APPLYING AGREED-UPON PROCEDURES**

To the Board of Education and Audit Committee
Pelham Union Free School District
Pelham, New York

We have performed the procedures described in the following pages, which were agreed to by the Pelham Union Free School District (District), solely related to asset inventory and control for the period July 1, 2013 through September 30, 2014.

The District's management is responsible for administering this area.

This engagement to apply agreed-upon procedures was performed in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of the procedures is solely the responsibility of the District. Consequently, we make no representation regarding the sufficiency of the procedures either for the purpose for which this report has been requested or for any other purpose.

Our procedures and findings are described in the following pages.

We were not engaged to and did not conduct an audit, the objective of which would be the expression of an opinion on the District's asset inventory. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

We would like to express our appreciation for the cooperation and assistance that we received from the District's administration and other employees during our engagement.

This report is intended solely for the information and use of the District and is not intended to be and should not be used by those who have not agreed to the procedures and taken responsibility for the sufficiency of the procedures for their purpose.

Cullen & Danowski, LLP
November 18, 2014

PELHAM UNION FREE SCHOOL DISTRICT

Introduction

For the Period Ended September 30, 2014

Introduction:

This report is organized as follows: categorized by function and there are five sections as follows:

- Background information
- Summary of the engagement
- Procedures performed during our detailed testwork
- Findings as a result of our review
- Recommendations to further strengthen internal controls or improve operational efficiency.

Some of the recommendations may require a reassignment of personnel duties within the District and/or a monetary investment. However, any enhancement of controls should be done after a careful cost-benefit analysis.

Corrective Action Plan:

Commissioner of Education Regulation §170.12(e)(4) requires that a corrective action plan, approved by the Board of Education, must be filed within 90 days of issuance with the New York State Education Department.

The District should send the Corrective Action Plan (CAP) along with the respective Internal Audit Report via mail or email to the addresses listed below. The report needs to accompany the CAP to allow the Office of Audit Services (OAS) to reconcile the District's CAP to the report to ensure all items have been addressed (i.e., CAP is not missing anything).

Submission Information – Mail & Email

New York State Education Department (NYSED)
Office of Audit Services (OAS)
89 Washington Avenue
Room 524 EB
Albany, NY 12234
Fsanda133@mail.nysed.gov

Contact

Mr. John Cushin
(518) 474-5928

PELHAM UNION FREE SCHOOL DISTRICT
Report on Applying Agreed-Upon Procedures
For the Period Ended September 30, 2014

ASSET INVENTORY

Background:

The recording of capital asset inventory is one of the most complex responsibilities of any governmental accounting office. There are various groups involved in capital assets management, and it is a difficult task to implement processes and procedures to ensure that assets are properly accounted for.

As per District policy, capital assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of one year are capitalized and depreciated. It is the District's practice for all individual capital assets, valued at \$500 or greater to be tagged and recorded in the District's capital assets inventory. Additionally, the District's practice is to tag any asset under the \$500 threshold that has a high exposure to theft.

The District uses CBIZ to maintain and update its inventory records. CBIZ is a software product used by many New York State school districts to record assets and to calculate depreciation expense for the government-wide financial statements. The District updates the inventory records at year end, which involves the Treasurer reviewing the equipment budget codes to ensure that all required assets acquired during the year are added to the capital assets listing.

Although a physical inventory was done at the District by the insurance company New York Schools Insurance Reciprocal (NYSIR) in June 2013, there was no report provided by NYSIR for the District to update its records.

Unique capital assets tags are issued by the Secretary to the Assistant Superintendent for Business. Upon making a purchase that requires an asset to be tagged, the Department will request a capital assets tag from the Secretary. A capital assets form is sent to the Department to be completed. When it is returned, the Secretary records the capital assets tag number on the form and sends the tag to the Department. The forms are maintained in the Business Office and are used to update the capital assets listing at year end. The Information Technology (IT) Department may request a block of tags for assets to be tagged; it maintains its own tracking system.

The District uses BOCES lease purchase agreements for the majority of technology items for the District (i.e., laptops, desktops, iPads, etc.); these items are tagged with a BOCES asset tag; no District asset tag is assigned to these items. The items that belong to BOCES are not recorded in the capital assets listing. These items are leased from BOCES on a 5 year term; when the lease expires the District can either end the lease and BOCES will take the items back or purchase the items at a discounted amount. The District typically will return the items and not purchase them when the leases end. Disposals of BOCES lease items are done by BOCES. No Board approval by the District is required for disposal of these assets. Board approval is required for disposal of assets belonging to Pelham. Additionally, as part of the agreement with the District, BOCES is required to have a BOCES member on staff to maintain the equipment.

The Technology Department began using Library World this past summer to maintain the District's IT capital assets records. Prior to that, it used manual forms to record information regarding each piece of equipment (i.e., item description, model #, serial #, asset tag #, amount, etc.). The information was not entered into a database or spreadsheet; therefore, it could not be sorted or searched. Transfers of items from one location to another were recorded on the forms if the IT Secretary was informed. Only new capital assets (purchased in 2014-15) were entered into Library World at the time of the audit. The District is entering older assets into the system as time permits with the intention to have all IT assets recorded in Library World. Asset tag numbers along with the item description, serial number, and PO number were entered into the system.

PELHAM UNION FREE SCHOOL DISTRICT
Report on Applying Agreed-Upon Procedures (Continued)
For the Period Ended September 30, 2014

Summary:

We found that the District needs to make improvements to its process for administration of capital assets to strengthen the internal controls over inventory. Although the District was able to locate 59 of the 61 assets selected for testing; we noted items that were not recorded in the system, incorrect tag numbers recorded for assets in the capital assets system, serial numbers not always recorded to identify items, and locations of items were not always recorded. Additionally, we noted that capital assets tags were not issued sequentially and not tracked to ensure that all asset tags were accounted for.

Procedures:

- Reviewed in detail Board policies and District procedures related to the asset inventory and control.
- Interviewed personnel responsible for asset inventory and control regarding policies, procedures and systems in effect and identified the strengths, weaknesses and key controls.
- Reviewed the capital assets inventory register as follows:
 - Selected 61 items from the capital assets register and had District personnel locate the items. Physically inspected each of the items.
 - Selected 30 asset purchases during the period and traced the recording of the asset into the capital assets register.
 - Selected 25 items from across the District and traced the recording of the asset into the capital assets register.
 - Reviewed the most recent reconciliation of capital assets additions per the financial records to the capital assets additions in the capital assets register.
- Accounted for tag sequence within the capital assets register and verified on a test basis.

Findings:

Reviewed Board policies and District procedures related to the asset inventory and control. We noted the following:

- We found that District personnel did not conduct an inventory at the end of 2014; however, the Board policy (District Policy 5620, Inventories and Accounting of Capital assets) requires that the Assistant Superintendent for Business be responsible for arranging the annual inventory and appraisal of District property, equipment and material. Any discrepancy between an inventory and the District property records should be traced and explained. Additionally, although a physical inventory was conducted at the end of 2013, the results were not provided for the District to update its records.

Interviewed personnel responsible for asset inventory and control regarding policies, procedures and systems; we noted the following:

- A detailed review is not conducted at year end of the supply budget codes (400 codes) to ensure that any capital assets items purchased from these budget codes are included in the capital assets listing. The Treasurer indicated at the end of last year that she had reviewed the codes for large purchases. Additionally, the Accounts Payable Clerk does not flag invoices for capital assets during the payment process.

PELHAM UNION FREE SCHOOL DISTRICT
Report on Applying Agreed-Upon Procedures (Continued)
For the Period Ended September 30, 2014

- We were informed that item location is not updated from year to year in the capital assets listing, unless a form is completed. We were further informed that there are very few forms sent to IT or the Business Office. During our review we noted several instances where the location of the asset in the capital assets system either was not recorded or did not match the actual location.
- We were informed requests for disposals are sent to the Business Office; the request is then placed on an agenda to be Board approved. We found that 2 of the 8 Board approved disposals tested for the 2013-14 school year were not removed from the capital assets listing (Snow Blowers).

Selected 61 items from the capital assets register and had District personnel locate the items. We found the following:

- We were unable to locate two of the 61 items selected for testing (power drill, purchased in 2013; and Point of Sale System, purchased in 2012); both of these unlocated items were on the High School capital assets listing. Of the 59 items found; there were a few items where it was difficult to determine if it was in fact the item selected (see below findings for details) since tags and serial numbers were not always readily available.
- We found that many items recorded in the capital assets listing did not have a serial number recorded, which caused difficulty in identifying the item. This difficulty was increased when the tag number was not affixed to the item or was removed from the item.
- We found instances where the location where the asset was found did not match the location recorded in the capital assets system. There is no process for changes in location of an asset to be updated in the capital assets system
- Controls over the tagging and recording of asset information over musical instruments needs to be improved. Our detailed findings are:
 - We selected a euphonium for testing at the Colonial Elementary School. We found there was no tag or serial number on the item (Euphonium) or recorded in the system. We were informed by District personnel that the item viewed was the item selected; but this could not be confirmed since it appears that asset tag numbers were never recorded in the capital assets system, and the item was not tagged. We noted there were four other euphoniums in the Music classrooms at Hutchinson Elementary School, Colonial Elementary School, and Prospect Hill Elementary School with asset tags affixed to them; however, these tag numbers could not be located in the capital assets system. We further noted, there were eight Euphoniums purchased in 2012, which did not have tag numbers or serial numbers recorded in the capital assets system.
 - We were informed that one musical instrument (Tuba) selected for testing was located at the Prospect Hill Elementary School. Upon inspection we noted it did not have an asset tag affixed to it and the serial number on the instrument did not match the serial number in the system. Upon further inspection of the serial number of the tuba seen during our audit we noted that this item was in fact located at the Siwanoy Elementary School
 - A musical instrument (Tuba) selected for testing at Siwanoy Elementary School could not be identified as the asset selected for testing; no tag was affixed to the asset and no serial number was recorded in the capital assets system. A tuba was viewed at the school, which we were

PELHAM UNION FREE SCHOOL DISTRICT
Report on Applying Agreed-Upon Procedures (Continued)
For the Period Ended September 30, 2014

informed was the item selected. A further search was conducted of the capital assets system by serial number; the serial number could not be located. It was noted that four tubas were purchased in 2013 (one for each school); however, the serial numbers were not recorded in the capital assets system.

- We selected a John Deere utility vehicle as part of our sample. We found no District asset tag was assigned to the vehicle; as no tag was affixed to the item or affixed to the PO. Additionally, the VIN number was not recorded in the capital assets system to identify the vehicle.
- We selected a Smartboard and a projector for testing. We were informed that the tags originally assigned to these items were lost and new tags were assigned. We observed these tag numbers were affixed to the assets; however, no serial numbers were recorded in the capital assets listing to be able to confirm the items. Additionally, the new asset tag numbers had not been recorded in the capital assets listing; nor had the lost tag numbers been deleted from the system.
- We found two items selected at the HS for testing (oven with griddle and skillet; and Swift microscope) and one item selected at the Hutchinson Elementary School (rock climbing wall) had no District asset tag assigned to them in the capital assets listing. Additionally, no serial number was recorded in the system to assist in identifying these items. Our only assurance that these were the items selected for testing was that District personnel attested that these were new items and the only items like them in the building. Additionally, we found one item (iPad) at the Colonial Elementary School and one item (burnisher) at the High School where there was no asset tag assigned; however, we were able to identify the items by matching the serial numbers on the items to the capital assets listing.
- One item selected for testing at the Hutchinson Elementary School; a food service line server was found; however, a different asset tag number was affixed to the asset. This tag number was not found in the capital assets system. We were informed that two of these items were purchased together in 2011. We viewed the duplicate item at Siwanoy Elementary School. This item had the correct asset tag affixed to it.
- An iPad cart selected for testing at the Siwanoy Elementary School had an incorrect building location recorded in the capital assets system (the location should be Colonial Elementary School). Upon further investigation, it was noted that two iPad carts were purchased at the same time; however, the locations of the two items were switched in the capital assets listing.
- One item selected for testing found during our site visit (pitching machine;) had a \$0 value recorded in the capital assets listing. We were informed that the item was purchased about four years ago. We were further informed that the item was probably not tagged when it was first purchased; however it was probably tagged when the inventory was conducted in 2013.

Selected 30 items from across the District and traced the recording of the asset into the capital assets register. We found the following:

- We were unable to find 7 of the 30 items selected in the field in the District's capital assets listing:
 - iPad
 - Euphonium
 - Tuba- no tag affixed
 - Euphonium

PELHAM UNION FREE SCHOOL DISTRICT
Report on Applying Agreed-Upon Procedures (Continued)
For the Period Ended September 30, 2014

- Club Cadet Snow blower
- 2 POS systems- cafeteria

We were informed that the two POS systems were purchased in 2009; however, they were purchased from the supply budget codes (400 codes) and were probably never identified as capital assets to be added to the listing.

Selected 25 asset purchases during the period and traced the recording of the asset into the capital assets register.

We found the following:

- We noted that an item (1/2 Beyer Bass) in the amount of \$869 was not recorded in the capital assets listing. Upon further conversations with the Treasurer, it was noted that this item was not identified as an asset since it was paid out of accounts payable at year end in 2013 and may have been overlooked. The Treasurer has since included year end procedures to review accounts payable payments to ensure that all capital assets included in these payments are properly recorded in the fixed asset inventory system.
- We noted that there were three items that were properly recorded in the capital assets system; however no asset tags were assigned to the items in the capital assets listing. They were all items where it may not have been convenient or practical to attach capital assets tags to the item:
 - Ventilation System
 - Furnace
 - Utility Vehicle (This item is identified in the findings above as well)

Reviewed the process to account for tag sequence; we found the following:

- The issuance of capital assets tags by sequence number is an important control to ensure all assets are entered into the capital assets listing. However, we found that the sequence number of tags is not being tracked. We found there were breaks in the sequence of the tags in the capital assets listing. We further noted several items purchased over the last few years, which did not have a District asset tag number recorded in the capital assets listing.

Recommendations:

We recommend the District consider implementing the following items to strengthen the internal controls over inventory:

1. Develop written procedures for the roles and responsibilities related to capital assets, that address the following:
 - Procedures for tagging new equipment purchases and accurately recording them in the inventory listing including the tag number and serial number of all assets
 - Procedures for when items should be tagged (i.e., procedures for items that may not be convenient or accessible to tag)
 - Process for notifying the individual responsible for the location of the assets, including any moves, disposals, etc.

PELHAM UNION FREE SCHOOL DISTRICT
Report on Applying Agreed-Upon Procedures (Continued)
For the Period Ended September 30, 2014

- Procedures for updating the information from each school in the capital assets listing, including the review process of the information, how often the information should be updated, and ensuring that all information is received.
2. A District asset tag should be issued for all capital assets that meet the criteria detailed in the District's policy, as well as any items to be tracked in the inventory system. Asset tags should be issued in sequential order by the Business Office. Additionally a review should be performed on a periodic basis to ensure that there are no breaks in sequence and all tags are accounted for. We further recommend a log should be created for items, which for practical reasons have not been tagged by the user department. The tag should be affixed to the applicable PO for non IT items.
 3. The District should develop a system of regular physical inventories for a portion of the District's assets so that the perpetual records can be verified. Differences between the physical inventory and the inventory records should be investigated to identify discrepancies and to determine if the processes and procedures related to inventory control have been operating as designed.
 4. The District policy requirement of an annual physical inventory should be reviewed. Consideration should be given to an annual inventory of a portion of the inventory, with a complete inventory done at some designated number of years.