Chappaqua Central School District

Report on Internal Controls Pertaining to the Fixed Asset Cycle

June 2024

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Scope of Engagement

Pursuant to the request of Chappaqua Central School District and in accordance with the internal audit plan designed within the District's December 2023 Risk Assessment Update Report, we have reviewed the District's policies, procedures, and internal controls pertaining to the District's fixed assets. This internal audit report pertains to the fiscal year 2023/2024.

The objectives of our analysis were to determine whether the internal controls pertaining to fixed asset inventory procedures are adequate and duties are properly performed, thus safeguarding the District's assets.

Work Performed

Our analysis consisted of the following:

1. Examined the following documents made available by the District:

    a. Board-approved policies pertaining to the fixed asset inventory function.

    b. Documented procedures related to fixed asset procurement, inventory, movement, disposal, etc.

    c. Copies of any forms utilized by the District to document fixed asset inventory.

   d. Appropriation status report generated by nVision indicating budgetary and actual fixed asset expenditures for the fiscal years 2020/2021 through 2022/2023.

   e. Cash disbursement report applicable to the equipment codes (200) for the fiscal year 2022/2023.

   f. Copy of the District's detailed property ledger indicating fixed assets as of December 2023.

   g. Fixed asset inventory applicable to information technology equipment as of May 2024.

2. Initial planning and interviews with the Assistant Superintendent for Business, School District Treasurer, Purchasing Agent, Purchasing Clerk, and Clerical Staff in the Information Technology Department involved in the fixed asset cycle. During our meetings, we had the opportunity to review documents and direct inquiries regarding transactional records, supporting documents, and timely reporting. The purpose of these interviews was to obtain knowledge as to each individual's job duties and involvement as they pertain to the fixed asset inventory process, day-to-day responsibilities, who they report to, and who they supervise.

3. Assessed the District's internal controls, including control effectiveness, performance, and expenditures. Assessed possible improvements pertaining to fixed asset internal controls. Such recommendations are presented within each applicable report section.

4. Prepared analysis and report. An audit exit conference was held on August 6, 2024 with the Assistant Superintendent for Business and School District Treasurer. The results, findings, and recommendations contained in this report were discussed with those attending.

Assessment of Fixed Asset Inventory Procedures

Based on the agreed-upon scope, we have assessed the areas listed below within the Fixed Asset Cycle. We have reviewed and tested each categorical procedure during the course of our audit. We have documented the fixed asset inventory process by way of narratives for each categorical procedure within Exhibits 1 through 3. For ease of reference, the categories are listed below:

- ***General Policies & Procedures***
- ***Fixed Asset Budget and Expenditures***
- ***Fixed Asset Acquisition & Disposal Procedures***
- ***Fixed Asset Inventory Procedures***

General Policies & Procedures *(Exhibits 1 & 2)*

The attached Exhibits 1 and 2 summarize the organizational structure applicable to the District's Fixed Asset cycle. We have made the following observations and recommendations:

The following processes are currently carried out by each Party:

Party	Function
Board of Education	Sets policies. Approves the proposed budget. Approves disposal requests forwarded by the Business Office.
Assistant Superintendent for Business/Property Control Manager	Reviews proposed budget with the Superintendent of Schools. Receives budgets from Administrators and Department Heads. Reviews requisitions applicable to information technology equipment forwarded by the Information Technology Director. Works with Purchasing Agent to manage disposal or sale of assets. Oversees annual review of fixed asset inventory processes. Receives monthly fixed asset tracking report from Purchasing Clerk.
Information Technology Department	Maintains barcode system and inventory schedule in 1to1 Plus for information technology equipment.
Business Office	Maintains fixed asset records. Processes payments upon Claims Auditor approval. Maintains barcode system and standardized inventory schedule in Frontline Asset Management. Updates inventory schedules and forwards them to CBIZ. Performs unannounced annual physical inspections. Updates the District's inventory schedule and processes payment upon receiving reports.
Purchasing Agent	Reviews requisition orders for compliance and processes purchase orders. Stamps Accounts Payable copy and forwards it to Purchasing Clerk. Works with Assistant Superintendent for Business/Property Control Manager to manage disposal or sale of assets.
Purchasing Clerk	Assigns tags and enters data into Frontline Asset Management. Forwards tags and record forms to Requestors. Updates fixed asset information upon receipt of forms and invoices. Updates Frontline Asset Management based on Fixed Asset Forms. Submits monthly fixed asset tracking report to Assistant Superintendent for Business/Property Control Manager.
Accounts Payable Department	Prepares payment vouchers. Confirms fixed assets tagging with the Purchasing Clerk before processing payments.
CBIZ - Insurance Appraiser	Calculates depreciation rates. Performs inventory update valuations annually. Receives updated inventory schedules from the Business Office for insurance purposes.
Vendors	Deliver assets to buildings.
Administrators and Department Heads	Submit a budget to the Assistant Superintendent for Business/Property Control Manager. Submit Fixed Asset Form to Purchasing Clerk. Submit disposal list to Business Office.
Requestors	Prepare requisition orders. Affix asset tags and forward receiving reports to the Business Office. Receive, inspect, and confirm goods.

Observation/Recommendation #1 ***Risk Rating: Low***

The District has developed documented policies, procedures, and guidelines pertaining to the District's fixed asset process and internal controls. The District is in the process of updating its current procedural manual, including standardized fixed asset forms, inventorying, and accounting & reporting procedures.

- ***The District should utilize the attached narratives as supplemental to the existing departmental manual regarding fixed asset inventory procedures. Additionally, the District should consider providing annual training workshops to Building Administrators and Administrative Assistants regarding fixed asset procedures and inventory management. This will result in a sustainable***

process and an annual internal review of the processes, and it will serve as a training document for the building-level Administration and the Business Office.

Fixed Asset Budget and Expenditures

We analyzed the appropriations status reports applicable to fixed asset expenditures for the fiscal years 2020/2021 through 2022/2023. The District's fixed asset expenditures, excluding capital expenditures, fluctuated and ranged from $709,654 in 2020/2021 to $1,035,190 in 2022/2023. The following table summarizes the District's fixed asset expenditures during the period analyzed:

Account	2020/2021	2021/2022	2022/2023
A-General			
1620-Operation of Plant	277,062	169,581	177,053
1621-Maintenance of Plant	27,269	11,180	21,836
2010-Curriculum Development and Supervision	13,596	14,226	10,053
2020-Supervision - Regular School	-	-	1,903
2110-Teaching - Regular School	81,637	500,192	133,043
2250-Program for Students with Disabilities School Age - School Year	9,817	17,099	6,711
2610-School Library and Audiovisual	593	-	-
2630-Computer Assisted Instruction	270,645	194,268	356,731
2855-Interscholastic Athletics Regular School	6,810	6,110	46,349
A-General Total	**687,429**	**912,655**	**753,680**
C-Cafeteria			
2860-School Food Service	-	22,812	82,812
C-Cafeteria Total	**-**	**22,812**	**82,812**
F-Federal			
2110-Teaching - Regular School	22,225	63,223	93,376
2630-Computer Assisted Instruction	-	36,500	-
F-Federal Total	**22,225**	**99,723**	**93,376**
Total Equipment Expenditures	**709,654**	**1,035,190**	**929,868**

Source: Appropriation Status Detail Reports generated by NVision for the fiscal years 2020/2021 through 2022/2023.

Based on our analysis, we noted the following:

- General Fund (A): Equipment purchases for teaching regular school programs increased by $418,554 in 2021/2022. Equipment purchases for computer assisted instruction and interscholastic athletics increased by $162,464 and $40,239 in 2022/2023, respectively.
- School Lunch Fund (C): Equipment purchases for the school lunch program increased by $60,000 in 2022/2023.
- Federal Fund (F): Equipment purchases for federal funded teaching programs increased by $77,498 in 2021/2022.

Based on our analysis of the 2022/2023 general fund appropriation status report, we noted a variance of $286,030, or 27.51%, between the general fund budgetary and actual fixed asset expenditures. The variance was attributed to savings in equipment purchases for plant operations and maintenance and curriculum instruction. The following table summarizes the variances between the fixed assets budgetary and actual expenditures during the period analyzed:

General Fund Account	Adj Budget	Expensed	Difference	
1620-Operation of Plant	468,948	356,731	**112,217**	**23.93%**
1621-Maintenance of Plant	208,660	133,043	**75,618**	**36.24%**
2010-Curriculum Development and Supervision	233,266	177,053	**56,213**	**24.10%**
2020-Supervision - Regular School	35,500	6,711	**28,789**	**81.09%**
2110-Teaching - Regular School	28,319	21,836	**6,483**	**22.89%**
2250-Program for Students with Disabilities School Age - School Year	13,000	10,053	**2,947**	**22.67%**
2630-Computer Assisted Instruction	48,517	46,349	**2,167**	**4.47%**
2855-Interscholastic Athletics Regular School	3,500	1,903	**1,597**	**45.63%**
Total General Fund Equipment Expenditures	**1,039,710**	**753,680**	**286,030**	**27.51%**

Observation/Recommendation #2 ***Risk Rating: Low***

Based on our analysis of the general fund appropriations status reports, we noted that certain equipment expenditures were under-estimated during the fiscal year 2022/2023.

- ***During the budget season, the Business Office should review the historical trends and fixed asset expenditure needs for the Facilities and Curriculum Departments to optimize budget allocations and prevent unnecessary appropriations.***

Fixed Asset Inventory Procedures *(Exhibit 3)*

The attached Exhibit 3 summarizes the fixed asset inventory procedures. We have made the following observations and recommendations:

Observation/Recommendation #3 ***Risk Rating: Moderate***

We randomly selected 44 fixed assets recorded in the District property ledger and tested these transactions against our audit criteria. Based on the testing procedures performed, we noted the following:

- We randomly selected twenty-four (24) general fixed assets recorded on the District's property ledger as of June 30, 2023 and performed a physical observation to trace them to their physical location. We noted the following:
  - Seven (7) instances whereby we were unable to locate the fixed assets.
  - Three (3) instances whereby the acquisition cost did not agree between the property ledger and expenditure reports.
  - One (1) instance whereby the asset tags were not affixed to the correct fixed asset.

- We randomly selected ten (10) assets from their physical location during our observation to trace back to the District's property ledger. We noted the following:

    - Two (2) instances whereby the fixed asset was not reported on the District's property ledger.
    - Four (4) instances whereby the fixed assets information, such as serial number and/or location, did not agree to the District's property ledger.

➢ ***To improve the fixed asset inventory procedures and internal controls, we recommend the following:***

- ***Each building-level Department Head should be responsible for securing, tagging, and disbursing newly acquired fixed assets. This recommendation applies to all individuals ordering equipment from the Business Office and Information Technology Department.***
- ***The Information Technology Department should integrate the information technology asset tags, purchase orders, and acquired values with the District's property ledger to facilitate comprehensive reconciliation and reporting.***
- ***The Business Office should review the instances where fixed assets are not appropriately tagged and their location is not reported in the property ledger, and update it accordingly.***

    Subsequent to our review, the District, with the assistance of its fixed asset appraisal company, is in the process of implementing this recommendation. Nawrocki Smith will perform key control testing in this area during its annual risk assessment to assess the implementation of the recommended controls.

<u>Observation/Recommendation #4</u> ***<u>Risk Rating: Moderate</u>***

The Business Office does not maintain in a consistent manner formal documentation regarding its annual physical observations on fixed assets or reconciliations of the annual additions reported on the property ledger to the general ledger for equipment codes reported in nVision.

➢ ***According to its procedural manual, the District should maintain documentation indicating the results of the comparison of physical inspections to property records and the reconciliations of the additions reported on the property ledger to the general ledger for equipment codes reported in nVision to confirm the accuracy of the reported fixed asset costs.***

Subsequent to our review, the District, with the assistance of its fixed asset appraisal company, is in the process of updating its property ledger so the Business Office can conduct physical inspections in a formal and consistent way.

<u>Observation/Recommendation #5</u> ***<u>Risk Rating: Moderate</u>***

The District does not have formal procedures to document and monitor the movement of capital assets on an occurrence basis. The lack of oversight in the fixed asset movements is a risk as the Business Office may not be able to document and monitor the movement of fixed assets accurately, and the District's property ledger may not accurately reflect the District's assets at the building level.

➢ ***According to its procedural manual, the District should utilize its "Transfer Request Form," indicating the request for the movement of a fixed asset from building to building. The building level Administrator or Department Head who requests the movement should complete the standardized request form. The transfer request form should serve as a mode of communication to the Business Office to review and approve such requests. Once reviewed, the Business Office, or***

another designated employee, should update the inventory schedule to reflect the status of the asset's location.

Risk Rating and Opinion

Inherent Risk Rating: High

Control Risk Rating: Moderate (Chappaqua Central School District)

Audit Opinion: Needs Improvement

Audit Comment: The District's control environment pertaining to Fixed Assets needs improvement. The recommendations noted above are aimed at improving the effectiveness of the fixed asset inventory internal controls within the District.

Exhibits

Exhibit 1 Flowchart of Fixed Asset Inventory Organizational Structure

Exhibit 2 Fixed Asset Policies

Exhibit 3 Proposed Narratives of Fixed Asset Inventory Procedures

Chappaqua Central School District
Report on Internal Controls Pertaining to the Fixed Asset Cycle
Flowchart of Fixed Asset Inventory Organizational Structure
Exhibit 1

Board of Education

Sets policies
Approves the proposed budget.
Approves disposal requests forwarded by Business Office.

Assistant Superintendent for Business/Property Control Manager

Reviews proposed budget with Superintendent of Schools.
Receives budgets from Administrators and Department Heads.
Reviews requisitions applicable to information technology equipment forwarded by Information Technology Director.
Works with Purchasing Agent to manage disposal or sale of assets.
Oversees annual review of fixed asset inventory processes.
Receives monthly fixed asset tracking report from Purchasing Clerk.

Information Technology Department

Maintains barcode system and inventory schedule in 1to1 Plus for information technology equipment.

Business Office

Maintains fixed asset records.
Processes payments upon Claims Auditor approval.
Maintains barcode system and standardized inventory schedule in Frontline Asset Management.
Updates inventory schedules and forwards them to CBIZ.
Performs unannounced annual physical inspections.
Updates District's inventory schedule and processes payment upon receiving reports.

Purchasing Agent

Reviews requisition orders for compliance and processes purchase orders.
Stamps Accounts Payable copy and forwards it to Purchasing Clerk.
Works with Assistant Superintendent for Business/Property Control Manager to manage disposal or sale of assets.

Purchasing Clerk

Assigns tags and enters data into Frontline Asset Management.
Forwards tags and record form to Requestors.
Updates fixed asset information upon receipt of forms and invoices.
Updates Frontline Asset Management based on Fixed Asset Forms.
Submits monthly fixed asset tracking report to Assistant Superintendent for Business/Property Control Manager.

Accounts Payable Department

Prepares payment vouchers.
Confirms fixed assets tagging with Purchasing Clerk before processing payments.

CBIZ - Insurance Appraiser

Calculates depreciation rates.
Performs inventory update valuations annually.
Receives updated inventory schedules from Business Office for insurance purposes.

Vendors

Deliver assets to buildings.

Administrators and Department Heads

Submit budget to Assistant Superintendent for Business/Property Control Manager.
Submit Fixed Asset Form to Purchasing Clerk.
Submit disposal list to Business Office.

Requestors

Prepare requisition orders.
Affix asset tags and forward receiving reports to Business Office.
Receive, inspect, and confirm goods.

Fixed Asset Policies
Exhibit 2

The District has a Board approved policy (Policy 6075) regarding Inventory/Capitalization. According to the policy, the Property Control Manager shall be responsible for maintaining inventory records and accounting for capital expenditures in accordance with the following guidelines:

Inventory Records

- All equipment items costing in excess of $1,000 shall be inventoried.
- All non-equipment capital assets costing in excess of $15,000 shall be inventoried.

The policy also requires the following information be maintained on the equipment/fixed asset inventory:

- Name and description of the property
- Name of titleholder (if different from the District)
- Serial number or other identification number
- Asset Identification number (tag number or other unique identifier)
- Cost of the asset (estimate if unknown)
- Acquisition or donation date
- Purpose (note and justify any changes in use)
- Location of use
- Date and method of disposal and sale price
- For items acquired with federal funds:
    - Funding source
    - Use and condition of property
    - Percentage of federal participation in the cost

Capitalization of Assets

- Equipment over $5,000 will be capitalized and depreciated for the GASB 34 reporting process.
- Equipment items costing less than $5,000 shall be expensed for GASB 34 reporting processes.
- All non-equipment capital assets costing in excess of $15,000 shall be capitalized and depreciated for GASB 34 reporting purposes.
- All non-equipment capital assets costing less than $15,000 shall be expensed for the GASB 34 reporting purposes.
- Donated items will be capitalized at the fair market value on the date of the donation.
- Some assets individually may fall below the capitalization threshold but may be purchased in large quantities by the District (e.g., computers). The District may choose to capitalize these assets as a group.

Per the policy, for financial reporting purposes, fixed assets with a service life of more than two years following the date of acquisition will be capitalized. Useful lives will be determined in the year of purchase based on general guidelines obtained from professional organizations and the asset's present condition. The District will use the straight-line depreciation method, and depreciation expense will be calculated beginning in the year of acquisition.

Applicable procedures are presented in the Narratives of Fixed Asset procedures (Exhibit 3)

Fixed Asset Policies
Exhibit 2

The District has a Board approved policy (Policy 6035) regarding the Disposition of District Personal Property and Equipment. According to the policy, the Board of Education recognizes the need to dispose of district personal property and equipment that are no longer necessary for the maintenance of the educational program or the operation of the School District. The Board directs the periodic review of all District property and authorizes the disposition of any property not required for school district purposes according to the provisions of this policy.

Following approval by the Board of Education, the Business Administrator shall then be authorized to dispose of such property as follows:

- The District shall attempt to sell all inventoried surplus property and any other surplus property deemed saleable. All sales of surplus property shall be open to the public. Notice of the sale and/or requests for bids shall be made through advertisements in the local newspapers and other usual and appropriate means to assure public awareness.
- All surplus property must be sold to the highest bidder.
- Inventoried surplus property that has not been sold after at least one attempt and that is determined not to be marketable because it is damaged, in poor condition, or obsolete, may be recycled or sold as scrap for the best obtainable price or discarded in the safest, least expensive manner.
- Surplus property that is damaged or in poor condition or would require additional district resources to prepare for sale, may be recycled or sold as scrap for the best obtainable price or discarded in the safest, least expensive manner.
- Any net proceeds from the sale of property shall be deposited in the general fund.

Applicable procedures are presented in the Narratives of Fixed Asset procedures (Exhibit 3)

A. **Budgeting**

1. The District commences its budget process for fixed assets. During this process, each Administrator and Department Head submits their budget to the Assistant Superintendent for Business/Property Control Manager for review.

2. The Superintendent of Schools and Assistant Superintendent for Business/Property Control Manager review the proposed budget.

3. The Board of Education approves the proposed budget.

B. **Purchasing**

1. The Requestors at various buildings prepare requisition orders by making provisions in the "200" budget code.

2. The Information Technology Director reviews requisitions applicable to information technology equipment and forwards them to the Assistant Superintendent for Business for secondary review.

3. The District's Purchasing Agent reviews the requisition order to verify compliance with the purchasing policy and processes the purchase orders.

4. Upon purchase order approval, the Purchasing Agent stamps the Accounts Payable copy of each purchase order containing fixed assets and forwards it to the Purchasing Clerk.

5. The Purchasing Clerk assigns tags and enters the fixed information into Frontline Asset Management based on the purchase order and supporting information such as item description, quantity, and building location (if available).

6. The Purchasing Clerk forwards the tags and fixed asset record form to the Requestor for placement on the devices and recording of the specific location of the devices before returning the form to the Purchasing Clerk.

7. Upon receipt of the fixed asset record form from the Requestor and the final invoice information from Accounts Payable, the Purchasing Clerk updates the fixed asset information into the Frontline Asset Management, including serial number, room location, and acquisition cost. The Purchasing Clerk initials the purchase order, confirming that tags have been placed and records have been fully recorded in the Fixed Asset System.

8. The Business Office maintains the fixed asset record form along with copies of the quotes and purchase orders to support fixed asset purchases.

C. **Receiving**

1. The vendor delivers assets to the buildings.

2. The Requestors are responsible for receiving, inspecting, and confirming the receipt of goods.

3. The Information Technology Department receives all information technology-related equipment prior to distributing them to the buildings.

4. Upon receipt, the Requestors affix the asset tag to the equipment and forward the receiving reports to the Business Office to update the District's inventory schedule and process the payment.

D. Payment

1. Upon receipt of the invoice from the vendor, the Accounts Payable Department prepares a payment voucher by collecting the purchase order, packing slip, and invoice. The Accounts Payable Department does not process payment without confirmation from the Purchasing Clerk that the fixed asset has been tagged and the fixed asset record has been updated completely.

2. The Business Office forwards the payment voucher to the Claims Auditor for review.

3. Upon approval by the Claims Auditor, the Business Office processes the payment.

E. Inventory

1. The Business Office maintains a barcode system and a standardized inventory schedule in Frontline Asset Management to record additions, disposal, and changes in fixed asset locations throughout the fiscal year. The Information Technology Department maintains a similar barcode system and inventory schedule in 1to1 Plus for the information technology equipment.

3. The inventory schedules include the following fixed asset information:

    a. Asset Number
    b. Quantity
    c. Manufacturer/Model/Serial Number
    d. Acquisition Date
    e. Historical Cost
    f. Location
    g. Description of Asset
    h. Serial Number
    i. Purchase Order Number
    j. Vendor
    k. Class Code (for depreciation purposes)

4. At the end of the year, the District forwards the updated inventory schedules to CBIZ to update its records for insurance purposes.

5. Depreciation rates are calculated by "CBIZ" at the end of each fiscal year. Fully depreciated properties remain on the inventory schedule with zero (0) value. The District utilizes the straight-line depreciation method.

F. Transfer or Movement of Fixed Assets

1. The building-level Administrator or Department Head submits a Fixed Asset Form to the Purchasing Clerk to update the Frontline Asset Management and reflect the current location of a fixed asset.

G. Fixed Asset Disposals

1. The building-level Administrator or Department Head submits a list of assets to be disposed of to the Business Office.
2. The Business Office forwards the request to the Board of Education within their monthly agenda for approval.
3. Depending on the item, the District disposes or sells the item to the community or public bid auctions. The Assistant Superintendent for Business/Property Control Manager works with the Purchasing Agent to sell or dispose of the fixed asset in a manner that provides the best value to the District. This includes sales, auctions, and recycling companies.

H. Fixed Asset Inventory Review

The Assistant Superintendent for Business/Property Control Manager oversees an annual review of the District's fixed asset inventory processes as follows:

1. On a sample basis (5-10 items), the Business Office performs unannounced annual physical inspections (1-2 times per year) to determine that assets are present, located in the assigned area, and accurately recorded in Frontline Asset Management. This selection is made by an employee other than the Purchasing Clerk or employee responsible for placing asset tags on the selected assets.
2. Through NYSHIP, the District has contracted with CBIZ to perform inventory update valuations annually.
3. The District randomly samples equipment purchases (200 object codes) in the current fiscal year selected from the financial application, and those items are located in the Frontline Asset Management.
4. Additionally, a random sample of items submitted to the Board of Education for disposal is sampled to ensure the Frontline Asset Management has been updated accordingly.
5. Any discrepancies between actual and recorded fixed assets discovered during the annual review are investigated and resolved by the Assistant Superintendent for Business/Property Control Manager and the building or department staff responsible for the asset(s).

I. Fixed Asset Activity Reporting

1. On a monthly basis, the Purchasing Clerk submits to the Assistant Superintendent for Business/Property Control Manager documenting the fixed asset tracking activities for the prior month, including:

   - Acquisitions
   - Transfers
   - Disposals
   - Inventory Reviews