



Orange-Ulster Board of Cooperative Educational Services Fixed Assets

Report of Examination

Period Covered:

July 1, 2014 – January 13, 2016

2016M-268



Thomas P. DiNapoli

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State of New York Office of the State Comptroller

Division of Local Government and School Accountability

November 2016

Dear Board of Cooperative Educational Services (BOCES) Officials:

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

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

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

Respectfully submitted,

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

Introduction

Background

The Orange-Ulster Board of Cooperative Educational Services (BOCES) is a public entity serving 17 component school districts. BOCES is governed by a seven-member Board of Education (Board) elected by the boards of its component districts. The Board is responsible for the general management and control of BOCES' financial and educational affairs. The District Superintendent (Superintendent) is BOCES' chief executive officer and serves dual roles. The Superintendent is responsible, along with other administrative staff, for BOCES' day-to-day management and for regional educational planning and coordination. The Superintendent also serves as a representative for the New York State Commissioner of Education.

A BOCES senior account clerk maintains BOCES' Fixed Asset list, adding new assets and recording disposals. Department heads are responsible for tagging BOCES' assets and notifying the senior account clerk of any asset disposals for their respective departments. The Treasurer, in addition to other duties, supervises the senior account clerk.

Combined, the 17 component districts educate approximately 55,800 students in Orange and Ulster counties. BOCES delivers more than 100 educational and administrative services and employs approximately 1,500 staff members. BOCES' 2015-16 fiscal year budget of \$122.9 million was funded primarily by charges to school districts for services, State aid and federal aid.

Objective

The objective of our audit was to review controls over BOCES' fixed assets. Our audit addressed the following related question:

- Are fixed assets properly recorded and accounted for?

Scope and Methodology

We examined the fixed assets of Orange-Ulster BOCES for the period July 1, 2014 through January 13, 2016.

We conducted our audit in accordance with generally accepted government auditing standards (GAGAS). More information on such standards and the methodology used in performing this audit are included in Appendix B of this report. Unless otherwise indicated in this report, samples for testing were selected based on professional judgment, as it was not the intent to project the results onto the entire population. Where applicable, information is presented concerning the value and/or size of the relevant population and the sample selected for examination.

**Comments of BOCES
Officials and Corrective
Action**

The results of our audit and recommendations have been discussed with BOCES officials, and their comments, which appear in Appendix A, have been considered in preparing this report. BOCES officials generally agreed with our recommendations and indicated they have already taken, or plan to take, corrective action.

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

Fixed Assets

Fixed assets, such as machinery and equipment, represent a significant investment of BOCES resources. Detailed property records help establish accountability and allow for the development of additional controls and safeguards. BOCES officials should ensure that fixed asset records are complete, accurate and up-to-date. BOCES should have an asset policy that sets forth the duties, records and control procedures to safeguard such assets. BOCES officials should establish dollar-value thresholds for identifying and tracking fixed assets and ensure that fixed assets are located in the departments of record or can easily be located. No fixed asset should be disposed of prior to Board authorization. BOCES maintains an inventory software system that includes a fixed asset report capability to help staff account for assets.

BOCES officials did not establish formal fixed-asset policies and procedures that provide clear guidance for asset recording and disposal. As a result, BOCES staff did not properly record and account for fixed assets. Not all assets were recorded on the Fixed Asset list, and assets were not always in the locations indicated. We also found that not all assets were tagged and that some assets were disposed of without Board approval. As a result, BOCES officials do not have adequate assurance that all BOCES property is safeguarded.

Asset List

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

We selected 15 recent asset purchases totaling \$37,093¹ to determine if they were added to the Fixed Asset list. None of the assets were recorded as of April 2016. For example, two 48-port switches (\$8,994), two computers (\$7,618) and a router (\$5,325) were not recorded. When we brought this to their attention, BOCES officials recorded the assets immediately. The Treasurer told us that assets are generally recorded on the Fixed Asset list at the end of each fiscal year.

We reviewed 20 assets purchased during the 2014-15 fiscal year totaling \$130,590 to determine whether they were recorded on the Fixed Asset list. As of June 2016, nine assets, totaling \$97,443,

¹ See Appendix B, Audit Methodology and Standards, for details on our sample selection.

had not been added to the Fixed Asset list. These included a welder (\$9,477), a mower (\$3,600), a refrigerator (\$3,545) and a power cutter (\$1,378). The senior account clerk told us it was the responsibility of the individual departments acquiring the assets to notify her with appropriate documentation for listing. If departments don't provide information on the assets to be listed, the senior account clerk does not know what to record. Without accurate and up-to-date fixed asset records, BOCES officials do not have assurance that BOCES assets are protected against loss or unauthorized use.

Asset Tracking

BOCES officials are responsible for ensuring that fixed assets are located in the department of record or can easily be located. Each asset should be assigned an identification number using a tag, decal or stenciling, affixed to the asset, that readily identifies it as BOCES property. Asset tags improve the ability to differentiate between assets and can provide a deterrent for improper use.

Asset Location – We selected 15 assets (valued at \$26,117) from the Fixed Asset list to determine if they were in BOCES' possession and found two exceptions. A drone (valued at \$1,234), similar to the one listed, was physically present at BOCES; however, the drone's serial number did not match the serial number on the Fixed Asset list. In addition, a BOCES asset tag was not affixed to the drone, even though it had an assigned asset tag number. Further, a laptop (\$1,838) was not in the location indicated. The Director of Technology provided a form showing the equipment was being used off-campus, but the form was not signed (indicating authorization) and the date was blank. BOCES officials were subsequently able to present the laptop for our review.

We also selected 15 assets (valued at \$157,869) from the disbursement data to determine whether the assets purchased were in BOCES possession and were able to locate all 15 assets. However, one asset, an insert machine (\$4,545), was not on the Fixed Asset list.

Asset Tagging – We selected a sample of five assets located at a BOCES garage and inspected them for BOCES asset tags. Four did not have a tag. In addition, three were not included on the Fixed Asset list. Therefore, these assets are not properly tracked, preventing determination of their value.

These exceptions occurred because department heads did not consistently follow BOCES' informal procedures for recording and tagging assets. When assets cannot be located, BOCES officials do not have assurance that all property can be accounted for. Assets that are not properly tagged are more susceptible to loss or theft.

Disposal of Assets

Based on BOCES' procedures, each department head is responsible for notifying the senior account clerk of an asset retirement. Notification should include an asset disposal request form indicating the department and/or location, all approval signatures, the asset tag number, the reason for disposal and the date of retirement. The senior account clerk prepares a list of assets for disposal each month for Board approval.

We selected a sample of 20 assets (original cost \$101,795) listed as disposed during 2014-15 and found that four assets (original cost \$89,602) were not included in the Board-approved list. The Treasurer said that not all disposals were included on the list because of timing issues. The senior account clerk enters disposal information into the BOCES inventory software system when the Business Office receives all the paperwork with the actual date of disposal. However, if the asset was disposed of in a previous month, it is not captured in the current monthly report that is given to the Board for approval. The Treasurer said that BOCES is changing this process to use the date that the disposal is entered in the system when preparing the monthly list of disposed assets for the Board. Because assets were disposed of prior to or without Board approval, BOCES officials and taxpayers have no assurance that BOCES property is properly accounted for.

Recommendations

BOCES officials should ensure that:

1. Fixed asset records are accurate and up-to-date and all fixed assets can be located.
2. All assets are tagged as appropriate.

The Board should:

3. Amend the fixed asset policy to clearly communicate its intent to BOCES personnel regarding procedures for asset recording and disposal.
4. Authorize all asset disposals.

APPENDIX A

RESPONSE FROM BOCES OFFICIALS

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

ADMINISTRATION
William J. Hecht
District Superintendent/CEO
Deborah McBride Heppes
Assistant Superintendent for Finance
Theresa A. Reynolds
Assistant Superintendent for Instruction
Sharleen Depew
Clerk of the Board



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October 18, 2016

Tenneh Blamah
Chief Examiner of Local Government and School Accountability
Office of the State Comptroller
33 Airport Center Drive, Suite 103
New Windsor, New York 12553

We are in receipt of the draft report from the State Comptroller's Office audit of the Orange-Ulster Board of Cooperative Educational Services (the BOCES) for the period July 1, 2014 through January 13, 2016.

The BOCES is committed to providing an exceptional educational program for our students. Additionally, the BOCES is dedicated to ensuring that its finances are administered responsibly. The State Comptroller's office spent close to six months scrutinizing our financial records, management procedures, processes and policies. They performed a comprehensive examination of our internal controls, financial practices and controls over our technology. As a result of their audit, we are pleased that the draft report does not suggest any instances of fraud, malfeasance or legal impropriety with respect to any of the BOCES finances. We are also pleased to report that every item that was selected by the Auditors for the Fixed Asset review was located in operating condition. The BOCES has reviewed the Comptroller's findings and recommendations from the audit and we have already taken corrective action to strengthen our controls over Fixed Assets. This response to the audit recommendations will also serve as our corrective action plan.

Response and Corrective Action Plan:

Recommendation #1 – Fixed Asset records need to be accurate and up to date and all fixed assets can be located. The BOCES has implemented a new procedure where we prepare a reconciliation of fixed assets additions to the Fixed Asset Inventory list on a quarterly basis. All differences are investigated.

Recommendation #2 – All assets are tagged as appropriate. Recommendation #2 is resolved hand in hand with Recommendation #1. As the reconciliations are prepared, we ensure that all assets are properly tagged and inventoried.

Recommendation #3 – Amend the fixed asset policy to clearly communicate its intent to BOCES personnel regarding procedures for asset recording and disposal. On July 14, 2016, the Board adopted the BOCES Owned Property Accountability policy. (This is policy number 4550.) This policy is a comprehensive policy for our Fixed Assets.

Recommendation #4 – Authorize all asset disposals. All disposals will be Board approved before the assets are disposed of.

Conclusion:

The BOCES is committed to take the appropriate corrective action to correct, enhance and strengthen our Fixed Asset practices and comply with the State guidelines. We take great pride in our processes in place to safeguard taxpayer funds. Thank you for the opportunity to review and respond to these recommendations.

Sincerely,

William J. Hecht
District Superintendent

APPENDIX B

AUDIT METHODOLOGY AND STANDARDS

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

- We interviewed BOCES personnel to obtain an understanding of fixed asset processes and procedures.
- We obtained 10 voucher packages for recently purchased assets (between July 2015 and January 2016). In the voucher packages provided, we identified a total of 41 assets, each valued above \$500, totaling approximately \$76,000. From the 41 assets, we selected 15 assets valued at \$37,093 to determine whether they were included on the Fixed Asset list. We selected one or two assets from each voucher package, choosing the most expensive items.
- We selected 23 voucher packages from the 2014-15 cash disbursement data, based on vendor name and dollar amount of the payment, to identify assets purchased during the 2014-15 fiscal year that met the recording threshold established by BOCES. We then selected a sample of 20 assets totaling \$130,590 from the 151 assets valued at \$401,541 identified on the vouchers, to determine whether they were included on the Fixed Asset list. This selection was made to include various types of fixed assets.
- We selected 15 assets valued at \$26,117 from the Fixed Asset list containing 25,888 assets valued at \$87.4 million. We selected another sample of 15 assets totaling \$157,869 from the disbursement data. We selected assets that included various types of movable fixed assets (e.g., laptops) at different locations throughout BOCES. We traced the assets to their physical locations to determine if they were in BOCES' possession.
- We selected five assets stored at a BOCES garage to determine if they had the required asset tags affixed. We selected assets with significant value that were easily movable (e.g., chainsaw, mower). We then recorded the tag number, serial number or both of the selected assets and traced them to the Fixed Asset list.
- We randomly selected a sample of 20 assets originally valued at \$101,795, out of 1,567 assets originally valued at approximately \$2 million, listed as disposed of in 2014-15 to determine if they were actually disposed of and if the disposals were authorized.

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

APPENDIX C

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