



**Freed Maxick CPAs, P.C.**

Board of Cooperative Educational Services First  
Supervisory District of Erie County, New York  
Review of Internal Controls over Fixed Assets

**Internal Audit Report**

March 27, 2013

*PRELIMINARY DRAFT  
For Review and Discussion  
--Subject to Change—  
Not to be Reproduced*

March 27, 2013

Audit Committee  
Board of Cooperative Educational Services First  
Supervisory District of Erie County, New York  
355 Harlem Road  
West Seneca, NY 14224

We have performed an internal audit of the internal controls over fixed assets of the Board of Cooperative Educational Services First Supervisory District of Erie County, New York (the BOCES). Our internal audit was performed during 2013 in accordance with the terms of our engagement letter and the applicable internal audit procedures. Our report contains the following:

- ❖ **Executive Summary** - an overview of the risk factors considered, an overall internal audit rating, and a summary of the key observations.
- ❖ **Observations** - detail related to specific findings noted during the current year testing.

This report contains recommendations for improvement in internal controls for consideration by the Board of Education, the audit committee and BOCES officials.

This report is intended solely for the information and use of the BOCES. It is not intended to be and should not be used by anyone other than these specified parties. The New York State Comptrollers Office may be provided with a copy of this report in connection with fulfilling their oversight responsibilities.

We appreciate the cooperation extended to us during this review. If we can be of assistance to you or if you have any questions concerning this report, please contact Kathryn Barrett at (585) 344-1967.

Sincerely,

Freed Maxick CPAs, P.C.

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**I. EXECUTIVE OVERVIEW**

**Introduction**

We recently completed an internal audit of the BOCES' internal controls and processing procedures over fixed assets with a primary objective of evaluating the significant control points for effectiveness, adequacy, and efficiency of operations. This report is intended solely for the information and use of the BOCES, and should not be used for any other purpose. The following chart, extracted from the risk assessment conducted as part of the internal audit plan development, illustrates the areas that present the higher risks.

Inherent Risk	Ext Mrkt / Rep	Financial	Ops	Legal / Reg	Strategic	Tech Systems /	People Culture /	Fraud	Risk Score
	Mod	Mod	Low	Low	Low	Low	Low	Mod	142

COSO Controls	Monitor	Info Comm /	Control Activities	Risk Assmnt	Control Envmt	Risk Score
	Strong	Strong	Strong	Strong	Strong	100

**Internal Audit Scope**

We completed an internal audit of the BOCES' fixed assets in accordance with the internal audit plan and planning memo. Our internal audit was performed to:

- ❖ Gain an understanding of the functions and processes,
- ❖ Identify the risks and exposures,
- ❖ Assess the impact of such risks on the internal control environment, and
- ❖ Evaluate the adequacy of internal controls in place to mitigate the identified risks.

**Overview of Issues**

During the course of our work, we discussed our findings with management. Our detailed findings and recommendations for improving controls and operations are described in the detailed issue matrix of this report. A summary of key issues is provided below.

**Table 1**

Issue Description	Relative Risk	Resolution Level of Difficulty
1. Lack of requested fixed asset reports	Low	Low
2. Items returned to BOCES not accounted for	Low	Low
3. Asset 4000 System not being updated for changes in fixed assets	Moderate	Low
4. School district owned assets listed on BOCES fixed asset system	Low	Low

**Definitions:**

- Relative Risk is an evaluation of the severity of the concern and the potential impact on the operations. Items rated as "High" are considered to be of immediate concern and could cause significant operational issues if not addressed in a timely manner. Items rated as "Moderate" may also cause operational issues and do not require immediate attention, but should be addressed as soon as possible. Items rated as "Low" could escalate into operational issues, but can be addressed through the normal course of conducting business.
- Resolution Level of Difficulty is an evaluation of the estimated level of difficulty and potential cost to resolve the concern based on our experience. Items rated as "High" are considered to be difficult to resolve and/or will require a significant amount of planning and management involvement/oversight in order to obtain resolution. Items rated as "Moderate" are not as difficult to resolve and/or do not require a significant amount of planning, but may be time-consuming to resolve. Items rated as "Low" are items that are not complex and/or do not require significant amounts of planning and time to resolve.

**Conclusion**

A "Unsatisfactory" audit rating, as defined below, was assigned following this audit based on the identification of the key findings summarized above, as well as other less significant comments that can be addressed by management in the normal course of business.

<b>RATINGS</b>	<b>CONDITIONS</b>
<b>SATISFACTORY</b>	No significant deficiencies exist, while improvement continues to be appropriate; controls are considered adequate and findings are not significant to the overall BOCES.
<b>NEEDS IMPROVEMENT</b>	Some improvement needed to bring the BOCES to acceptable status but if continues without attention, could lead to further deterioration and an unacceptable status.
<b>UNSATISFACTORY</b>	Significant deficiencies exist which could lead to material financial loss or embarrassment to the BOCES.

### **Internal Audit Approach**

To accomplish the scope of this internal audit, we reviewed or performed:

- ❖ Interviews with personnel responsible for maintenance of fixed asset inventory records
- ❖ Review of entries to the .200 general ledger accounts
- ❖ Internal inventory reports and reports received from the independent appraiser
- ❖ Purchase orders and invoices for fixed asset purchases
- ❖ Board approved lists of surplus assets
- ❖ Audited financial statements

It should be recognized that controls are designed to provide reasonable, but not absolute, assurance that errors and irregularities will not occur, and that procedures are performed in accordance with management's intentions. There are inherent limitations that should be recognized in considering the potential effectiveness of any system of controls. In the performance of most control procedures, errors can result from misunderstanding of instructions, mistakes in judgment, carelessness, or other personal factors. Control procedures can be circumvented intentionally by management with respect to the execution and recording of transactions, or with respect to the estimates and judgments required in the processing of data.

Further, the projection of any evaluation of control to future periods is subject to the risk that the procedures may become inadequate because of changes in conditions, and that the degree of compliance with procedures may deteriorate.

### **Scope and Methodology**

During this internal audit we examined internal controls over fixed asset transactions of the BOCES that existed at the time of our internal audit. More information on such standards and the methodology used in performing this audit are included in Appendix A of this report.

There was a limitation on the scope of the procedures that could be performed during our internal audit. The following procedures, as outlined in our engagement letter could not be performed:

- ❖ We were unable to perform asset addition testing because the BOCES was unable to produce fixed asset addition reports for specific periods that could be reconciled to WinCap expenditure reports. As a result, we were also unable to verify the following:
  - That all capital assets purchases (those meeting the BOCES' capitalization policy) had been added to fixed asset addition in the Asset 4000 System, the useful life assigned to the asset was consistent with the BOCES' capitalization policy and Asset 4000 System was calculating the depreciation correctly.
  - That only capital assets purchases meeting the BOCES' capitalization policy had been added to the Asset 4000 System.
- ❖ We were unable to perform asset disposal testing because the BOCES was unable to produce fixed asset disposal reports for specific periods. As a result, we were also unable to verify the following:
  - That all capital assets disposals were properly authorized.
  - That capital disposals were properly removed from the Asset 4000 System.
- ❖ We were unable to perform a roll forward of the asset inventory from July 1, 2011 through December 31, 2012 because the BOCES was unable to produce fixed asset addition and deletion reports for specific periods that agreed with the changes noted on fixed asset inventory reports as of a specific date.

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- ❖ We were unable to agree fixed asset inventory and depreciation reports as of June 30, 2011 and 2012 to the BOCES' audited financial statements for these dates. The reports produced by the BOCES from the Asset 4000 System for these dates did not agree to the audited financial statements and the BOCES was unable to provide us with an explanation of what the differences may have been.

**Comments of the BOCES Officials and Corrective Action**

The results of our internal audit and recommendations have been discussed with the BOCES officials and their comments, which appear in this report, have been considered in preparing this report.

The Audit Committee has the responsibility to initiate corrective action. The Audit Committee should prepare a plan of action that addresses the recommendations in this report. For guidance in preparing the plan of action, the Audit Committee may refer to applicable sections in the publication issued by the Office of the State Comptroller entitled *Local Government Management Guide*.

II. DETAILED OBSERVATIONS AND RECOMMENDATIONS - FIXED ASSETS

Observation	Recommendation	Management Response
1. Lack of Requested Fixed Asset Reports		
<p>During our testing of the fixed asset system, we noted that the BOCES was not able to generate many of the reports requested for performance of our internal audit; this included, but was not limited to, fixed asset additions and deletions reports for a specific period and fixed asset inventory and depreciation reports as of a specific date.</p>	<p>We recommend that the BOCES develop reports in the Asset 4000 System that would identify asset additions and deletions, as well as depreciation, for a given period of time.</p>	<p>Corrective Action: Responsible Individual: Target Date:</p>
2. Items Returned to BOCES Not Accounted For		
<p>During our testing of the physical inventory, we noted that there were thirteen instances, out of seventy-five assets selected for testing, where an item was returned to BOCES by a school district but the Asset 4000 System had not been updated accordingly.</p>	<p>We recommend that the BOCES update their Asset 4000 System in a timely manner when assets are returned to BOCES from the respective school districts.</p>	<p>Corrective Action: Responsible Individual: Target Date:</p>
3. Asset 4000 System Not Being Updated For Changes in Fixed Assets		
<p>During our testing of the physical inventory, we noted that, out of seventy-five assets selected for testing, there were four assets identified by the school districts as either missing or stolen and one asset identified as being disposed of.</p>	<p>We recommend that the BOCES continue to communicate with the schools the necessity to contact the BOCES if assets are disposed of or removed from operation for any reason.</p>	<p>Corrective Action: Responsible Individual: Target Date:</p>

Observation	Recommendation	Management Response
4. School District-Owned Assets Listed on BOCES Fixed Asset System		
<p>During our testing of the physical inventory, we noted that there were two instances, out of seventy-five assets selected for testing, where assets were included as BOCES assets but were actually District-owned assets.</p>	<p>We recommend the BOCES continue to perform random physical inventories of a sample of BOCES assets on an annual basis. The physical inventory should be compared to the asset listing and any discrepancies should be investigated. In addition, we recommend the BOCES provide the school districts with a detailed list of all BOCES owned assets at the specific school districts at least annually. The school districts should then be required to review and confirm in writing that the listing is complete and accurate.</p>	<p>Corrective Action:  Responsible Individual:  Target Date:</p>

## APPENDIX A

### INTERNAL AUDIT METHODOLOGY

To accomplish our internal audit objective, we performed a risk assessment of the internal controls in order to design our internal audit to focus on high risk areas. Our risk assessment included evaluations of the following areas: accounting systems, centralized and decentralized cash receipts, grant administration, state aid, purchasing and cash disbursements, payroll, employee benefits and paid time off, fuel depot, and fixed assets.

During the risk assessment, we interviewed appropriate BOCES officials and reviewed pertinent documents such as BOCES policies and procedures manuals and financial records and reports. Further, we reviewed the BOCES' internal controls and procedures over the computerized financial databases to help ensure that the information produced by such systems was reliable.

After reviewing the information gathered during our risk assessment, we determined where weaknesses existed, and evaluated those weaknesses for the risk of potential fraud, theft and/or professional misconduct, and selected for internal audit those areas most at risk. The Audit Committee selected fixed assets for further audit testing.

Within fixed assets we interviewed appropriate BOCES officials and employees to obtain an understanding of the BOCES' controls and operations associated with fixed assets. We reviewed fixed asset reports maintained by the BOCES' independent appraiser, fixed asset inventory change reports submitted by the BOCES to the independent appraiser, documentation supporting fixed asset purchases, and BOCES financial statements.

Our internal audit methodology requires that we understand the District's management controls and those laws, rules and regulations that are relevant to the District's operations included in the scope of our internal audit. An internal audit includes performance of procedures related to transactions recorded in accounting and operating records and applying such other internal auditing procedures, as we consider necessary in the circumstances. We believe that the procedures performed provide a reasonable basis for the findings, conclusions and recommendations contained in this report.

## APPENDIX B

### INTERNAL AUDIT PROCEDURES PERFORMED

We performed the procedures enumerated below, which were agreed to by the Audit Committee of the BOCES. The sufficiency of these procedures is solely the responsibility of the specified users of the report. Consequently, we make no representation regarding the sufficiency of procedures described below either for the purpose for which this report has been requested or for any other purpose. The procedures performed are summarized as follows:

#### Internal Controls

We reviewed existing procedures for fixed asset maintenance to ensure that appropriate internal control exist.

#### Fixed Asset Monitoring

1. We inquired of BOCES officials of the performance of annual physical inventories.
2. We inquired if the BOCES/component units had capital leases and whether those assets were those assets included in the Asset 4000 system.
3. We inquired if capital improvements had been included in the inventory system.

#### Physical Inventory Testing

1. We selected 20 BOCES assets from the Asset 4000 inventory listing at December 31, 2012 and verified the physical location of the asset. We selected 75 component unit assets from the Asset 4000 inventory listing at December 31, 2012 and verified the physical location of the asset. We also selected a sample of assets on location, both at the BOCES and the component units and traced the asset to the BOCES Asset 4000 inventory listing.

#### Insurance

1. We verified that the BOCES' fixed assets were properly insured per review of insurance documents and the BOCES' asset report.