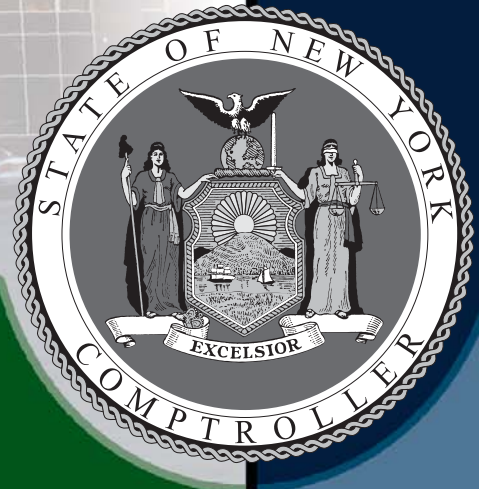


SCHOOL DISTRICT ACCOUNTABILITY INITIATIVE

2008 ANNUAL REPORT

OFFICE OF THE
NEW YORK STATE
COMPTROLLER

Thomas P. DiNapoli
State Comptroller



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OFFICE OF THE NEW YORK STATE COMPTROLLER

DIVISION OF LOCAL GOVERNMENT AND SCHOOL ACCOUNTABILITY

MISSION AND GOALS

Our mission is to serve taxpayers' interests by improving the fiscal management of local governments and schools in New York State.

Our goals are to:

- Enable and encourage local government and school officials to maintain or improve fiscal health by increasing efficiency and effectiveness, managing costs, improving service delivery, and accounting for and protecting assets.
- Promote government reform and foster good governance in communities statewide by providing local government and school officials with up-to-date information and expert technical assistance.

Our strategies to achieve these goals are to:

- **Identify Solutions.** To become the premier source of information and policy analysis relating to local governments, and assist local governments and schools in addressing operational, financial and economic development challenges.
- **Monitor Performance.** To provide high-quality financial accountability services.
- **Share Knowledge.** To provide studies, best practices information, technical assistance, training, reference materials, local government data and other information to local governments, schools, state government, and other customers using an effective communications strategy.
- **Target Efforts.** To build on our risk-assessment processes and employ other approaches to ensure that limited resources are effectively deployed to the most critical activities.
- **Train Staff and Sharpen Tools.** To provide our staff with the skills and resources they need, improve work processes through collaboration and innovation, and apply technology to enhance effectiveness.
- **Respond Dynamically.** To function as a mission-driven organization that responds to opportunities for leadership, changing circumstances, and the Comptroller's initiatives.

A MESSAGE FROM New York State Comptroller Thomas P. DiNapoli



Reflecting the turmoil on Wall Street and in the national and global economies, New York State's budget shortfalls continue to worsen. My Office's recent cash reports show that revenues from personal income taxes are below projections, and business taxes have dropped below last year's collections in a year-to-year comparison. Clearly, we are in very difficult fiscal times.

Reacting to these issues, Governor Paterson submitted a deficit reduction plan to a November 2008 special session of the State Legislature that called for mid-year budget cuts. Along with substantial reductions to other programs, the Governor's plan would have cut school aid for the 2008-09 school year by reducing formula-based aid and reducing funding for certain categorical programs.

While the State Legislature did not enact the Governor's mid-year state aid cuts, the Governor has notified school officials that deeper reductions in education spending will now be required in next year's budget to close the state's budget gap.

We are doing all that we can to help school officials face these challenges through school audits, web-based initiatives, and training efforts. The purpose of our school audits is to offer recommendations to schools on how they can improve their practices to protect school property and taxpayer dollars, and part of that purpose involves reporting on the school districts that are getting it right. This year, my Office highlighted a number of school districts that have established proper procedures to monitor fiscal practices and protect taxpayer resources. Because strong fiscal practices allow districts to place their focus on the education of students, it is important that my Office center attention on those school districts that have the right tools and policies in place to provide best practices for other schools to emulate.

In addition, we directed significant audit resources in 2008 to review the status of individuals being reported as members of the New York State and Local Employees' Retirement System. Over 870 cases have been reviewed statewide and 46 individuals, who were receiving retirement credits or pension benefits to which they were not entitled, have had their membership revoked or have had their service credit rescinded. This additional audit work was necessary to ensure that taxpayer funds were properly safeguarded.

In June 2008, OSC launched the Open Book New York website to promote more openness in government and to give taxpayers better access to the financial workings of government. In September 2008, working in conjunction with Cornell University's Community and Rural Development Institute, OSC introduced the Local Government Training Clearinghouse website,

a searchable online training database for local government and school district officials that allows officials to find detailed information about various training events, visit the website of the organization sponsoring the training, and register for certain programs. Also, in October 2008, OSC launched the first in a series of free online tutorials which are designed to help local government and school district officials improve their working knowledge of financial best practices.

Like their state counterparts, school officials must control spending and carefully plan their 2009-10 school budgets. Every dime counts, and New York's schools need to manage their finances conservatively over the next few years. We are facing a crisis, but this crisis also is an opportunity for us to provide leadership. By acting early, controlling spending, and avoiding tempting budgetary gimmicks, state and local leaders can continue to deliver vital services now, while ensuring sound financial operations in the future.

I hope that school district officials find the information in this report useful as they consider ways to improve their own operations. In the coming year, my auditors will continue to focus on identifying better fiscal controls to help school districts weather the current crisis.

Sincerely,

Thomas P. DiNapoli
State Comptroller

SECTION 1:

SCHOOL FINANCIAL ACCOUNTABILITY OVERVIEW

This report fulfills the Comptroller's statutory requirement under Chapter 267 of the Laws of 2005 to "inform and advise the governor and the legislature in December of each year regarding a review of all school districts, Board of Cooperative Educational Services (BOCES) and charter schools audits conducted during the preceding twelve months and any other pertinent information that the Comptroller deems appropriate." This is the third Chapter 267 report issued by the Comptroller since enactment of the law in July 2005, and covers audit work occurring through December 2008.

The legislation was enacted in response to a number of scandals in school districts that threatened public confidence. It restored the Office of the State Comptroller's (OSC) audit presence in schools and helps prevent fraud and mismanagement from the inside by ensuring that school district officials have the information and understanding they need to recognize and prevent existing or potential fraud and abuse.

Legislative Requirements

The State Legislature passed bills to implement the Five-Point Plan and provide additional funding for school audits in June 2005, and the Governor signed them into law in July 2005. The legislation charged OSC with auditing more than 800 school districts, BOCES and charter schools¹ within five years. These audits help deter fraud, expose fraud where it exists and point out best practices in districts that are well run and can serve as models for other districts.

Fiscal Audits of School Districts (Chapter 267, Laws of 2005)

The law requires the Comptroller to audit each school district, BOCES and charter school at least once by March 31, 2010. Thereafter, OSC will decide which schools to audit based on a risk-assessment process that may include investigations of alleged improprieties, previous audit findings, or other financial indicators. OSC is required to provide reasonable prior notice to districts before conducting these audits.

Other provisions of the legislation require all audit reports to be made available to the public by OSC, and by the audited districts, BOCES and charter schools. These audited entities must post the audit reports to their websites, and retain them on the websites for at least five years. The legislation also requires the Comptroller to refer any criminal misconduct to the appropriate authorities.

¹ Due to a legal ruling and subsequent appeal, OSC has stopped conducting audit work and issuing audit reports in all charter schools until the issues raised are resolved by the courts. Refer to Section 3: Emerging Issues for further information.

SCHOOL FINANCIAL ACCOUNTABILITY OVERVIEW

The purpose of OSC school audits is to review the internal controls, financial practices and operations of school districts to help ensure that there is adequate protection against fraud, theft and/or professional misconduct. These audits help strengthen accountability by reviewing how public resources are used, and can be used as a tool in the development of school district internal controls. When undertaking these audits, OSC examines and evaluates financial documents, assesses current financial practices, and determines whether adequate protections exist against abuse.

OSC school audits do not duplicate the work performed by school districts' independent auditors. For example, OSC audits do not express an opinion on the reliability of financial statements, as an audit done by a CPA firm would. Rather, OSC audits focus on whether school districts' internal controls are adequately designed and operating effectively to provide adequate safeguarding of assets in areas such as cash receipts and disbursements, purchasing, claims approval, and payroll and personal services.

Five-Point School Financial Accountability Plan (Chapter 263, Laws of 2005)

In 2005, OSC worked with the New York State School Boards Association (NYSSBA), New York State Society of Certified Public Accountants (NYSSCPA), New York State Council of School Superintendents (NYSCOSS), New York State Association of School Business Officials (NYSASBO) and the New York State Education Department (SED) to produce the "Five-Point School Financial Accountability Plan." The Plan promotes stronger internal controls, improves school district audits and strengthens the roles of boards of education in conducting appropriate oversight.

The main components of the Five-Point Plan are:

- **Strengthen the internal claims auditor function:** Many boards of education delegate the duties of reviewing and authorizing payment for district expenses to an internal claims auditor. Nonetheless, these boards are still ultimately responsible for approving all payments. The law emphasizes this responsibility by requiring that the internal claims auditor report directly to the board of education.
- **School board member financial oversight training:** All school board members elected or appointed on or after July 1, 2005, must complete at least six hours of training on their financial oversight, accountability and fiduciary responsibilities. The training must be completed within a year of their election and can be provided by any SED-approved trainer.

SCHOOL FINANCIAL ACCOUNTABILITY OVERVIEW

- **More rigorous external audit standards:** The law requires that the external auditor present the annual audit report directly to the school board, and that the board prepare a corrective action plan in response to any findings from that report or from a State Comptroller's report. The law also requires all districts to use a competitive request for proposal (RFP) process for selecting external audit firms. After a district has selected an external audit firm, it may engage that firm annually for up to five years, at which point it must repeat the RFP process. The law does not forbid districts from hiring the same firm for consecutive five-year engagements as long as it follows the RFP process.
- **New internal audit requirements:** The law requires all but the smallest school districts to establish an internal audit function by July 1, 2006, to be in operation by no later than the end of the calendar year. This function must include developing, annually updating, and reporting on a risk assessment of district operations. At a minimum, the risk assessment must include a review of financial policies and procedures, and the testing and evaluation of district internal controls. Many larger districts already have this function, and smaller, nonexempt districts can use existing district staff or shared services agreements, or contract for the service.
- **Required audit committees:** The law requires all but the smallest districts to establish an audit committee by January 2006 to assist the school board with its financial oversight responsibilities. This committee may be made up of all or some of the members of the board of education, but it also can be made up in part or completely of non-board members. In fact, so long as they have requisite experience, committee members do not need to be residents of the district. The guiding principle is that this committee should be able to help the board in its responsibility to select and oversee external and internal auditors, exercise its financial oversight responsibility, and implement any necessary corrective reform.

Financial Transparency

In June 2008, as part of Comptroller DiNapoli's effort to promote more openness in government and give taxpayers better access to state and local government financial information, OSC launched the Open Book New York website (www.openbooknewyork.com). The initial website release provided information to the public regarding salary, travel, and other expenditures for more than 100 state agencies and more than 60,000 state contracts through user-friendly, searchable databases.

In September 2008, OSC expanded the Open Book website to include financial data for 3,100 local governments and school districts, giving local government and school district officials and taxpayers access to information reported to OSC by all cities, towns, villages, school districts, and fire districts for the most recent 11 years. Visitors to the website can easily find how local governments and school districts generate their revenues and what activities and services those revenues support. In the future, the local government component of the Open Book website will be expanded to include financial information on real property taxes, indebtedness, and constitutional tax and debt limits. The Open Book website provides unprecedented access to detailed financial information on local governments and school districts for taxpayers and other interested parties.

The consumers of OSC local government and school district data are a diverse group of individuals and organizations. With the release of the Open Book website, this data is easier to access than ever before. With regard to school data, taxpayers can use this information to assess how their school districts are using their tax dollars. School officials can use the data to compare their revenues and expenditures with other school districts and help identify potential efficiencies. Research organizations, academics and students can now easily access this data to support their research. Legislative and executive agency staffs can use the searchable database to assist them in creating analyses used to develop statewide policies. While this data has historically been available to these groups upon request, the launch of the Open Book website provides instantaneous access to this information.

The Open Book website has been well received. The rollout of the local government revenue and expenditure data received extensive statewide media coverage, and more than 21,000 individuals visited the website during its first month of operation.

Retirement Benefits

During 2008, we became aware that some school districts were reporting individuals to the New York State and Local Employees' Retirement System even though they were not actually employees of these districts. In response, we looked at a wide range of individuals in professional titles in school districts across the state to verify their eligibility in the retirement system. We determined that a number of individuals who were actually independent contractors were being reported as employees and, therefore, were inappropriately gaining public pension benefits to which they were not entitled. To date, we have reviewed over 870 cases and the Comptroller has revoked the membership or rescinded the service credit of 46 individuals. This work was unexpected and was performed in addition to the mandated audits of financial controls.

SECTION 2: ACTIVITY AND RESULTS IN 2008

Summary of Reports Issued in 2008 (Through December 31)

The Office of State and Local Government Accountability (SLGA) – which comprises the Division of Local Government and School Accountability (LGSA) and the Division of State Government Accountability (SGA) – spent more than 14,448 staff days to conduct various school and school-related audits in 2008. These audits included audits of financial operations and school district budgets, as well as performance audits of various aspects of school district operations to identify revenue enhancements and/or cost savings. From these efforts, OSC issued 288 individual school audit reports in 2008.

Internal Control Audits	210
Charter School Audits	6
Budget Review Audits	16
Audits of School Districts' External Audits	1
Special Subject Matter Audits	55
Total	288

Audits – Related to School Legislation and Other Purposes

The school legislation calls for audits of the fiscal practices of each school district, including assessing current financial practices and determining whether school districts have adequate internal controls to prevent fraud, theft, and/or professional misconduct. Since the beginning of the school initiative, OSC has issued 548 audits that specifically conform to Chapter 267 of the Laws of 2005. OSC conducted 19 audits in 2005, 87 audits in 2006, 226 audits in 2007, and 216 audits in 2008 that met the requirements of the legislation.

OSC also performed other school district audits in 2008, including 16 audits that focused on school districts' budgets and financial condition. Because external annual audits are a significant part of the internal control process in each district, additional audits were performed focusing on the independent audit services at one district, while conducting separate audits of internal controls. Finally, 55 special purpose audits were conducted that assessed various aspects of school operations for cost savings, revenue enhancements and/or other program issues.

ACTIVITY AND RESULTS IN 2008

Internal Control Audits

Internal control audits relate to the establishment of internal controls over specific areas of operations, including expenses incurred on the behalf of school district managers and members of the boards of education. These audits focus on high-risk areas identified through a risk assessment process and based on complaints, letters and requests from taxpayers and local and state officials. Although some districts had strong internal control systems, we also found a wide range of weaknesses in internal controls.

In 2008, we issued audits of the internal controls of the following schools and school-related entities:

Adirondack Central School District	Chittenango Central School District
Alexander Central School District	Cohoes City School District
Amagansett Union Free School District	Connetquot Central School District
Amherst Central School District	Cooperstown Central School District
Amityville Union Free School District	Copenhagen Central School District
Ardsley Central School District	Cortland City School District
Argyle Central School District	Croton-Harmon Union Free School District
Avoca Central School District	Crown Point Central School District
Bay Shore Union Free School District	Cuba-Rushford Central School District
Belfast Central School District	Dobbs Ferry Union Free School District
Belleville Henderson Central School District	Dolgeville Central School District
Bellmore-Merrick Union Free School District	Downsville Central School District
Berkshire Union Free School District	Duanesburg Central School District
Bethpage Union Free School District	East Greenbush Central School District
Bolton Central School District	East Hampton Union Free School District
Briarcliff Manor Central School District	East Quogue Union Free School District
Bridgehampton Union Free School District	East Rockaway Union Free School District
Brighton Central School District	East Syracuse-Minoa Central School District
Brookfield Central School District	Eastchester Union Free School District
Byron-Bergen Central School District	Eastern Suffolk BOCES
Camden Central School District	Eastport-South Manor Central School District
Campbell-Savona Central School District	Eden Central School District
Canaseraga Central School District	Eldred Central School District
Canisteo-Greenwood Central School District	Elizabethtown-Lewis Central School District
Capital Region BOCES	Ellicottville Central School District
Carmel Central School District	Elmira City School District
Carthage Central School District	Elwood Union Free School District
Chappaqua Central School District	Farmingdale Union Free School District
Cheektowaga Central School District	Fire Island Union Free School District
Cherry Valley-Springfield Central School District	Floral Park-Bellerose Union Free School District

ACTIVITY AND RESULTS IN 2008

Florida Union Free School District	Liverpool Central School District
Forestville Central School District	Long Lake Central School District
Frankfort-Schuyler Central School District	Longwood Central School District
Fredonia Central School District	Lyncourt Union Free School District
Genesee Valley Central School District	Madrid-Waddington Central School District
Geneseo Central School District	Manchester-Shortsville Central School District
Glens Falls City School District	Marcellus Central School District
Glens Falls Common School District	Margaretville Central School District
Gloversville Enlarged School District	Mattituck-Cutchogue Union Free School District
Great Neck Union Free School District	Medina Central School District
Greece Central School District	Millbrook Central School District
Green Island Union Free School District	Montauk Union Free School District
Greenport Union Free School District	Moriah Central School District
Greenville Central School District	Mount Morris Central School District
Hadley-Luzerne Central School District	Nassau County BOCES
Hamburg Central School District	New Hartford Central School District
Hartford Central School District	New Lebanon Central School District
Hastings-on-Hudson Union Free School District	New Rochelle City School District
Hawthorne Cedar Knolls Union Free School District	New Suffolk Common School District
Herkimer Central School District	Newark Valley Central School District
Herkimer-Fulton-Hamilton-Otsego BOCES	Newcomb Central School District
Herricks Union Free School District	Niagara Falls City School District
Hicksville Union Free School District	North Bellmore Union Free School District
Highland Central School District	North Colonie Central School District
Highland Falls-Fort Montgomery Central School District	North Merrick Union Free School District
Honeoye Central School District	North Rose-Wolcott Central School District
Honeoye Falls-Lima Central School District	North Tonawanda City School District
Hyde Park Central School District	North Warren Central School District
Indian River Central School District	Oneida City School District
Island Trees Union Free School District	Onteora Central School District
Islip Union Free School District	Oppenheim-Ephratah Central School District
Jamestown City School District	Orange-Ulster BOCES
Johnsburg Central School District	Oswego County BOCES
Jordan-Elbridge Central School District	Oxford Academy and Central School District
Katonah-Lewisboro Union Free School District	Oysterponds Union Free School District
Kingston City School District	Pawling Central School District
Letchworth Central School District	Perry Central School District
Little Flower Union Free School District	Peru Central School District
	Pine Bush Central School District
	Piseco Common School District

ACTIVITY AND RESULTS IN 2008

Pittsford Central School District	Springs Union Free School District
Plainview-Old Bethpage Central School District	St. Regis Central School District
Plattsburgh City School District	Tompkins-Seneca-Tioga BOCES
Pleasantville Union Free School District	Town of Webb Union Free School District
Pocantico Hills Central School District	Tri-Valley Central School District
Poland Central School District	Tuckahoe Common School District
Port Byron Central School District	Tuckahoe Union Free School District
Port Chester-Rye Union Free School District	Tully Central School District
Port Jefferson Union Free School District	Tupper Lake Central School District
Port Washington Union Free School District	Tuxedo Union Free School District
Prattsburgh Central School District	Unadilla Valley Central School District
Queensbury Union Free School District	Unatego Central School District
Randolph Central School District	Union-Endicott Central School District
Rensselaer-Speonk Union Free School District	Union Free School District of the Tarrytowns
Rensselaer City School District	Valhalla Union Free School District
Richfield Springs Central School District	Valley Central School District
Rockland BOCES	Valley Stream Central High School District
Rome City School District	Vestal Central School District
Royalton-Hartland Central School District	Walton Central School District
Sackets Harbor Central School District	Wappingers Central School District
Sag Harbor Union Free School District	West Canada Valley Central School District
Sagaponack Common School District	West Genesee Central School District
Salamanca City School District	West Islip Union Free School District
Sandy Creek Central School District	West Seneca Central School District
Saratoga Springs City School District	West Valley Central School District
Schoharie Central School District	Westhampton Beach Union Free School District
Shelter Island Union Free School District	Westfield Academy and Central School District
Shoreham-Wading River Central School District	Westhill Central School District
Schroon Lake Central School District	Whitesboro Central School District
Shenendehowa Central School District	Whitesville Central School District
Sodus Central School District	Wilson Central School District
South Jefferson Central School District	Windsor Central School District
South Lewis Central School District	Washington-Saratoga-Warren-Hamilton-Essex
South Orangetown Central School District	BOCES
Spackenkill Union Free School District	Wyoming Central School District

Following are brief descriptions of the scope and findings of some major internal control audits issued in 2008. The summaries not only illustrate the services, but also demonstrate the many ways that OSC provides an independent voice for taxpayers while, at the same time, educating school officials with its routine audits.

ACTIVITY AND RESULTS IN 2008

- **Valhalla Union Free School District – Internal Controls Over Selected Financial Operations (2007M-270)** We identified significant deficiencies in the internal controls over the accounting for and disbursement of grant monies, payment of employee compensation and fringe benefits, the treasurer’s office and computerized data. For example, of the approximately \$1.7 million expended for the grant, approximately \$456,000 was not expended in accordance with the grant agreement, proposals or applicable laws. Furthermore, the business administrator chose to be reimbursed for a term life insurance policy that combined death benefit protection with the opportunity to direct the investment of net premium dollars into a broad portfolio of investment options. This selection provided him with benefits greater than provided for in his contract, resulting in \$38,500 in unnecessary costs to district taxpayers. Finally, district officials paid a retired transit police officer as a vendor, while also occasionally paying him as an employee through the normal payroll process. As a result, this employee may have received retirement benefits in excess of the amounts allowed by law and the district may be held liable for taxes, penalties and interest.
- **Greece Central School District – Internal Controls Over Selected Financial Activities (2007M-256)** The board’s failure to develop sound policies to manage district resources, its unwillingness to monitor district finances, and its deference to the individuals holding the superintendent’s position resulted in a poor control environment in the district. We found that construction in progress for a \$119.5 million capital project has exceeded the authorized funding by approximately \$2.5 million. The additional expenses were paid from the general fund, and included a pay increase of about \$1 million for the construction manager that was not approved by the board. In addition, district officials did not claim all the Medicaid reimbursements to which they were entitled. We estimate that the district failed to bill at least \$2.2 million in Medicaid eligible services, which cost the district about \$560,000 in lost revenue. Finally, 19 employees who left district employment received a total of \$175,000 for vacation benefit payments to which they may not have been entitled. Further, a number of administrators were paid a total of \$127,000 in additional compensation or benefits without board authorization based on supplemental agreements to contracts.
- **Fredonia Central School District – Internal Controls Over Selected Financial Operations (2007M-299)** We found that the board had not established a sufficient internal control framework that provided adequate and clearly communicated oversight and periodic monitoring of payroll, claims processing, and cash receipt and disbursement transactions. For example, two former superintendents received improper health insurance coverage valued at \$92,425. In addition, we found that for 53 claims totaling \$1,210,465, the claims auditor had not audited 20 manual checks, and 19 claims were paid after the invoice due date, were for late fees for previously late payments, or were late payments that included late fees. We also reviewed separation payments for eight former employees and found that the superintendent directed the business administrator/treasurer to pay \$10,876 to two former employees without authorization from the board.

ACTIVITY AND RESULTS IN 2008

- **Liverpool Central School District – Internal Controls Over Selected Financial Activities (2008M-19)** We found that the district overpaid the former superintendent by \$26,275, and leave records were not available to support payments that he received for unused leave totaling \$67,790. The superintendent approved payments totaling \$15,000 into the tax shelter annuities of three employees without board authorization. In addition, the district did not properly bill a former board member for his health insurance coverage, resulting in the district incurring \$44,283 in insurance costs without receiving reimbursement. The district violated the state constitution when it donated the proceeds (\$25,200) from the sale of 28 new laptop computers to a nonprofit corporation. Also, the district transferred \$85,080 in state aid to various organizations as a reimbursement for donated money that was designed to help the district fund programs in the arts and sciences. However, the district had no authority to pass state aid (originally received to partially reimburse the district for services purchased through BOCES) back to these organizations.
- **Jamestown City School District – Internal Controls Over Selected Financial Operations (2008M-61)** We found weaknesses in several of the district's financial operations caused by a lack of management oversight and attention to these operations. For example, there was no significant oversight of the treasurer regarding the recording and reporting of past due school taxes. Due to this lack of oversight, the district was not aware that a total of \$206,485 in property taxes was past due. The district also does not have adequate controls over wire transfers, and the third-party administrator for workers compensation who does not have statutory authority to sign district checks is allowed to do so without oversight by district officials. We found that payments for contracted services were not supported by signed agreements, employee meals were not provided in compliance with district policy, and purchases of supplies and equipment were not made in accordance with district procedures.
- **Niagara Falls City School District – Internal Controls Over Financial Operations (2008M-96)** The board did not provide certain critical control functions and did not monitor the implementation of existing controls to ensure compliance with district policies. For example, the board and district officials have not established written policies and procedures for the processing and disbursement of payroll and related benefits, or for monitoring such payments to ensure compliance with applicable employment agreements. As a result, we found that the district overpaid 272 salaried employees in excess of \$500,000 during the 2005-06 school year. We also found that the superintendent requested a lump-sum payment for unused vacation days each year, as provided in his employment contract. However, he did not record the use of any vacation time until the 2005-06 school year. Due to his failure to accurately account for his leave time, the district inappropriately paid the superintendent more than \$10,800 for 21 vacation days during the 2004-05 year. There also is a strong possibility that the district has inappropriately made lump-sum payments to him for a number of years. Finally, district controls over procurement, claims processing, and credit card usage were inadequate.

ACTIVITY AND RESULTS IN 2008

- **Vestal Central School District – Internal Controls Over Selected Financial Activities and Computer Data (2008M-125)** The district improperly administered the employee benefits program that allowed employees to request and purchase equipment that did not appear to be necessary for their job duties. The majority of this equipment was not located on district grounds. Six computers showed evidence of personal use, including adult websites and Internet history details of pornographic images on two of the machines. Also, the district overpaid employees \$1,412 under the employee benefits program. Auditors also found that the district improperly classified an attorney as a district employee and incorrectly reported him to the New York State and Local Employees’ Retirement System. We found that the district assigned its claims auditing function to an employee of the Broome-Tioga BOCES even though the district paid the BOCES \$7.7 million for various services. This arrangement does not adhere to State Education Department regulations.

In addition to examining the internal controls of public school districts, we also completed six audits that examined the controls of charter schools.

Amber Charter School
Brooklyn Charter School
Carl C. Icahn Charter School
Family Life Charter School
Our World Neighbor Charter School
Western New York Maritime Charter School

Following are brief descriptions of the scope and findings of two charter school audits issued in 2008. These summaries illustrate this service provided to these schools.

- **Western New York Maritime Charter School – Internal Controls Over Selected Financial Activities (2007M-307)** We found that former school officials and employees exploited weaknesses in the internal control system and manipulated the purchasing system. As a result, the school paid for goods or services totaling more than \$95,000 that were either not delivered to the school or were misappropriated after they were delivered. We found that the board does not review the claims paid by the school and has not established an independent claims audit function. The lack of an independent review of claims created an environment that led to financial improprieties. We found that 31 of 116 claims reviewed, totaling \$122,381, lacked proper approval, supporting documentation, itemization of expenses, evidence that goods or services were received, and/or an indication that the claim was a proper school expense and that quotes were sought for large dollar items purchased.

ACTIVITY AND RESULTS IN 2008

- **Amber Charter School – Financial Management Practices (2007-S-101)** We found that the board of trustees did not review and approve pay raises or school contracts. The school’s chief fiscal officer received a pay increase of almost 19 percent in one year, in addition to a \$5,000 bonus, without evidence of board approval. Also, school officials did not competitively bid 14 of 17 contracts reviewed, totaling \$958,000; therefore, school officials have no assurance that the amounts paid for these contracts were reasonable. For example, the school paid its cleaning contractor \$9,730 for cleaning supplies and services above and beyond what was required by the contract. Our examiners also found that the petty cash fund maintained by the facilities director was kept in her personal bank account off school premises. Appropriate background checks were not performed on at least seven staff members, and bank reconciliations were not reviewed by the board as required in the school’s by-laws.

Budget Review Audits

A budget review is an audit of a district’s budget prior to its adoption to determine whether information contained within the preliminary budget is supported, and whether revenue and appropriation estimates are reasonable and balanced. The audit includes gaining and documenting an understanding of the internal control environment and the specific controls that are significant to the budget process, and then assessing the reasonableness of major revenue and expenditures areas. The State Legislature mandates a budget review audit when a school is authorized for deficit financing (borrowing to pay off an accumulated deficit). In addition, we continued auditing the Roosevelt Union Free School District on a real-time basis to determine whether the district was adequately monitoring its own spending and staying within its 2007-08 budget. This effort has been continued into the 2008-09 fiscal year, and the division has already issued its review of Roosevelt’s first quarter fiscal status.

We performed mandated budget reviews in the following school districts:

Beacon City School District	Liberty Central School District
Campbell-Savona Central School District	Monroe-Woodbury Central School District
Chenango Valley Central School District	Patchogue-Medford Union Free School District
East Moriches Union Free School District	Roosevelt Union Free School District*
Enlarged Amsterdam City School District	Schenectady City School District
Enlarged City School District of Troy	South Country Central School District
Fabius-Pompey Central School District	
	* 4 Budget Reviews Performed

ACTIVITY AND RESULTS IN 2008

Following are brief descriptions of the scope and findings of some major budget review audits issued in 2008. The summaries illustrate this service provided to school districts.

- **Roosevelt Union Free School District – Second Quarter Report (2008M-16), Third Quarter Report (2008M-86), and Fourth Quarter Report (2008M-179) on the 2007-08 Adopted Budget, and First Quarter Report on the 2008-09 Adopted Budget (2008M-235)** As a result of our ongoing audits, we issued three quarterly reports for the 2007-08 fiscal year and a first quarter report for the 2008-09 fiscal year. In the fourth quarter report for the 2007-08 fiscal year, we determined that as of June 2008, the district had a potential operating surplus of more than \$21 million, leaving it with a projected accumulated fund balance of more than \$13 million. However, the district did not receive a \$4 million cash advance on future state aid to which it was entitled because district officials failed to prepare and file a five-year financial plan with the Commissioner of Education for approval, as required by the 2002 legislation. In the division's first quarter report for the 2008-09 fiscal year, we found that the district's spending had generally been within the limits established by the board in its enacted budget. However, examiners identified several areas of concern, including inadequate use of the encumbrance system to control expenditures. Many known expenditures had not been encumbered and some budgetary accounts had not been accurately established.
- **South Country Central School District – Budget Review (B7-8-7)** We found that almost \$1.2 million in costs were not included in the district's budget or were underestimated and that \$3.7 million in other costs were overestimated or over-budgeted. Debt principal repayments totaling \$500,000 were excluded from the budget, health and dental benefit costs could have been underestimated by about \$390,000, and energy costs could have been underestimated by approximately \$300,000. In addition, estimates for the district's contributions to the Teachers' and Employees' retirement systems were calculated using incorrect percentages, resulting in the district's estimates being more than \$1 million greater than what the district will be required to pay in the 2008-09 fiscal year. Furthermore, personal service costs were likely over-budgeted by almost \$2.7 million.
- **Schenectady City School District – Budget Review (B6-8-4)** We found that the significant revenue and expenditure projections in the proposed budget to be reasonable. However, the preliminary budget was not submitted to the Office of the State Comptroller until March 27, 2008, 13 days before the scheduled budget adoption vote. As a result, the district may not have had sufficient time to thoroughly review and consider any recommendations made on the budget as a result of our review. In addition, we cautioned district officials about their decision to finance \$3.6 million of operating expenditures with fund balance. Although the district's projected fund balance as of June 30, 2008, indicated that approximately \$5.8 million in unreserved fund balance may have been available, this practice can result in future budget gaps, because fund balance monies may not then be available in the event of future unexpected expenditures or revenue shortfalls.

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Audits of School Districts' External Audits

School districts in New York State are required by law to contract for an annual audit by an independent public accountant. This independent audit must be performed in conformity with generally accepted government auditing standards (GAGAS). The independent audit is considered a significant part of a school district's internal controls. The following school district audit is related to the acquisition of audit services and the audit work performed by their independent public accountants. We found that this school district audit did not meet professional standards.

We audited the annual external audit of the following school district:

Clinton Central School District – Independent Audit Services

Below is a brief description of the scope and findings from our audit of the school district's external audit issued in 2008. This summary demonstrates how this information serves as an educational tool to school officials and external auditors.

- **Clinton Central School District – Independent Audit Services (2007M-258)** The district procured its annual audit services by obtaining requests for proposals; however, its procurement policy had not been updated to outline procedures for obtaining professional services. The district's certified public accounting (CPA) firm did not follow its audit program and professional standards while conducting a search for unrecorded liabilities. Our examiners found unrecorded liabilities for the fiscal year ending June 30, 2006, in the amount of \$440,402. Finally, the CPA's audit report did not state that the audit was performed in accordance with GAGAS, and it did not contain a reference on the testing of internal controls over financial reporting and compliance with laws, regulations, and provisions of contracts or grant agreements.

Special Subject Matter Audits

In 2008, LGSA and SGA conducted 55 school-related, special subject audits of 47 school districts, two BOCES, one BOCES Regional Information Center, and one New York City agency. SGA assessed whether the New York City Department of Education (DoE) effectively promoted a federally funded tutoring program that is available to low-income students in poor performing schools.

LGSA assessed whether six school districts and a BOCES correctly classified their attorneys as employees rather than an independent contractors and correctly reported these attorneys to the New York State and Local Employees' Retirement System as being eligible for state pension credits. LGSA

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auditors also assessed whether school districts across the state are appropriately using their reserve funds, and they evaluated whether eight districts claim all the Medicaid reimbursements to which they are entitled. In support of the Comptroller's green initiative, LGSA auditors assessed whether six school districts reduced the amount of electricity consumed by computer equipment and whether a BOCES and nine school districts complied with Education Law in purchasing environmentally sensitive cleaning and maintenance products. As part of the growing concern about the health effects and costs associated with childhood obesity, LGSA audited the physical education programs of 20 school districts. In addition, LGSA auditors examined the information technology controls over financial accounting software and technology assets maintained by a BOCES Regional Information Center.

LGSA and SGA audited special subject matters in the following schools and school-related entities:

Akron Central School District	Lansingburgh Central School District
Baldwin Union Free School District	Mid-Hudson Regional Information Center
Bellmore-Merrick Central High School District	Mineola Union Free School District
Bolivar-Richburg Central School District	Mount Vernon City School District
Burnt Hills-Ballston Lake Central School District	New York City Department of Education
Candor Central School District	Newburgh Enlarged City School District
Chazy Central Rural School District	Niagara Falls City School District
Chenango Forks Central School District	North Syracuse Central School District
Clarkstown Central School District	Patchogue-Medford Union Free School District
Commack Union Free School District	Peru Central School District
Copiague Union Free School District	Plattsburgh City School District
East Greenbush Central School District	Ravena-Coeymans-Selkirk Central School District
East Meadow Union Free School District	Salmon River Central School District
Elmira Heights Central School District	Saranac Central School District
Enlarged Amsterdam City School District	Saranac Lake Central School District
Erie 1 BOCES	Schenectady City School District
Evans-Brant Central School District	Seneca Falls Central School District
Half Hollow Hills Central School District	Sewanhaka Central High School District
Hamilton-Fulton-Montgomery BOCES	Shenendehowa Central School District
Harborfields Central School District	Smithtown Central School District
Harpursville Central School District	Solvay Union Free School District
Hinsdale Central School District	Vestal Central School District
Homer Central School District	Watertown City School District
Ilion Central School District	Waterville Central School District
Johnstown City School District	Williamsville Central School District
Lake Placid Central School District	

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Following are brief descriptions of the scope and findings from some major special subject matter audits issued in 2008. The summaries illustrate the diverse topics covered by this particular service, and demonstrate ways that OSC provides an independent voice for taxpayers and identifies cost savings and revenue enhancement strategies for school officials and those agencies that monitor schools and school-related issues.

- **Employee Benefit Accrued Liability Reserve Funds (2008-MS-3)** We found that school district officials have reserved far more money than necessary in their Employee Benefit Accrued Liability Reserve (EBALR) funds. Examiners determined that 251 school districts across the state could have as much as \$407 million more in these reserve funds than they need to pay for compensated absences liabilities. These 251 school districts added more than \$112 million of surplus to their EBALR funds in the 2006-07 fiscal year (the most recent school year for which we have data) alone. Excess EBALR funds represent money that could be redirected to other purposes to benefit taxpayers. We also found other problems with how the districts managed their EBALR monies, including not properly calculating their liability for compensated absences, not using the fund to actually pay for compensated absences, and not depositing the interest earned on the EBALR funds into the reserve, as required.
- **New York City Department of Education: Student Participation in the Supplemental Educational Services Program (2006-N-11)** We found that the New York City Department of Education (DoE) and the schools are offering the Supplemental Educational Services (SES) Program in accordance with requirements, but can be more proactive and effective in promoting and encouraging enrollment. SES are federally funded tutoring and remediation programs that are provided to students before or after school or on weekends. The services must be offered to all eligible low-income students at schools where a significant portion of the student population is not meeting certain academic performance goals. Auditors found that the enrollment rates varied considerably between schools, ranging from 0 percent of the eligible population to 99.8 percent of that population. Three of the 45 schools had enrollment rates of at least 90 percent, while 15 of the schools (one-third) had enrollment rates of 10 percent or less.
- **Retirement Report (2008M-47)** We found that five school districts did not have formal procedures to distinguish between employees and independent contractors. We found that an attorney who provided legal services to the five districts was an independent contractor and that the districts incorrectly classified him as an employee. The examiners based their conclusion on the fact that school district officials did not exercise control over the attorney's daily activities. As a result, the districts were incorrect in classifying him as an employee and should not have reported him as an employee to the New York State and Local Employees' Retirement System.

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- **School District Medicaid Reimbursement (2008-MR-1)** We found that school districts do not claim all the Medicaid reimbursements to which they are entitled. Our audit covered a two-year period for which the eight districts reported a little more than \$3.65 million in revenue from Medicaid reimbursements. If similar conditions exist in the 10 counties covering northeastern New York State, districts within that region could collectively be entitled to receive over \$4.3 million more in revenue over the two-year period. Because the state is due an equal share of Medicaid reimbursements, it could also potentially receive more than \$4.3 million.
- **Computer Power Save (2008-MS-5)** We found that five school districts, with a total of 15,679 computers, could save about \$212,300 annually (\$13.54 per computer) by enabling power save settings and/or shutting down during periods of inactivity. If similar conditions exist in school districts statewide, districts could collectively save more than \$11.3 million annually, or reduce annual energy consumption by over 84 million kilowatts and reduce greenhouse gas emissions by more than 69.7 million pounds, which is the equivalent of removing 5,790 cars from the road.
- **Procurement and Use of Green Cleaning Products (2008-MS-2)** We found that school district and BOCES officials were generally aware of the new legislation requiring the purchase of environmentally sensitive cleaning and maintenance products, but had not adopted related policy guidance because the law does not require it. We found that officials at the districts we visited had taken significant steps to comply with the law. Of the 10 units we audited, three units complied with the law relating to the purchase of green cleaning supplies. While the remaining seven units were purchasing products that were not designated as green on a limited basis, they still generally complied with the law. We also found that school district and BOCES officials were making progress in depleting existing inventories of traditional cleaning products, as required by the law.

Common Themes in Audits

Although the school districts audited have improved many internal controls, effective governance extends far beyond adopting policies and procedures. It requires a concerted effort on the part of those charged with district management and oversight to understand the business of the district. That understanding includes knowing how employment, personnel and other contracts are approved and modified; who performs and who supervises key financial-related duties; and the types of weaknesses that might preclude the board or its administrators from reasonably preventing and/or detecting the loss or misappropriation of district assets. Furthermore, it requires a considerable amount of attention to information technology (IT). Computer systems and data represent one of the most critical areas of vulnerability not only to schools, but to other governmental entities as well.

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LGSA identified several recurring themes in its audits in 2008. These common findings represent potential opportunities for individual school districts to improve their financial operations, as well as opportunities for OSC and its partner organizations to provide better guidance and education to school officials. It is clear from the patterns identified in our audits that not all administrators and boards of education are familiar with the full breadth of their internal control responsibilities. In addition, because some of the findings relate to the inappropriate actions of school administrators, it also is evident that not all districts were successful in establishing an environment where the possibility of management override has been fully considered.

Design of IT Controls

Findings about weaknesses in a school district's IT system were included in 95 of 216 internal control reports (44 percent) issued. These controls refer mainly to security issues and include policies and procedures specific to IT controls, and access to data and computer systems. Many districts did not have policies and procedures for acceptable-use standards for computers, the Internet, and e-mail; safeguarding data; anti-virus protection; password security; remote or physical access controls; data backup systems; and disaster recovery needs. We found that district officials did not require personnel to create or change passwords, allowed personnel to have access rights to financial software programs that exceeded the requirements of their duties, and did not use audit logs to identify or track the individuals who accessed the system or the transactions they processed. These control weaknesses create a situation that is similar to not segregating financial duties properly, because one employee could authorize all phases of a transaction without oversight.

Another major concern that focused on safeguarding data integrity was the lack of appropriate data backup procedures and disaster recovery plans. A basic internal control for IT is to protect data by backing up files regularly (i.e., creating a duplicate copy of information stored on computers and servers) to enable restoration in the event of loss. Auditors found that many districts neglected to back up data or failed to properly secure the back-up tapes. Also, many districts did not perform contingency planning to address the potential loss of computer equipment and data, and outline procedures for recovery.

School officials must ensure that IT controls, similar to other internal controls, are designed and implemented to provide reasonable assurance that assets and resources entrusted to their care are used in accordance with laws and policies, and safeguarded against waste, loss and abuse. IT systems and data are valuable resources because school officials use them to make financial decisions, process transactions, and serve as the basis for reporting to taxpayers and the state and federal governments. Access to computer systems must be controlled and monitored to reduce the risk of misuse and/or alteration of the data. In addition, if the computers containing the data should fail, not having

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the information properly backed up could prove catastrophic. School districts need a formal disaster recovery plan to provide guidance on the prevention of the loss of computer data, and the recovery of computer data in the event of disaster.

Separation Payments

Findings about inappropriate separation payments, primarily to senior officials, were included in 16 of 216 internal control reports (7 percent) issued. Effective control over separation payments begins with adequate internal controls over payroll and leave time processing. Our audits found that officials did not provide sufficient oversight to ensure that employees' accrued leave balances were accurate and separation payments were made in accordance with employment contracts. As a result, employees were allowed to maintain vacation leave accruals in excess of what was allowed by employment contracts or policies, and separation payments were made based on those incorrect vacation leave balances.

Although effective control over separation payments begins with employment contracts and policies that contain guidance about employee benefit provisions, and adequate internal controls over payroll and leave time processing, it is important for school officials to ensure that school personnel adhere to established payroll processing policies, and to ensure that separation payments occur only when authorized by the board and in accordance with employment contracts. The board should review all employment contracts and policies and verify that vacation leave is provided as authorized and that employees are only credited with vacation leave in accordance with those authorizations. School officials should make separation payments only when specifically authorized by the board through resolutions, policies or employment contracts. Also, the board should establish and implement a policy for processing separation payments. As part of this policy, school officials should review leave accruals and separation payments to ensure that personnel follow district policies and procedures while processing payrolls.

Payments for Personal Services Without Contracts

In 2008, 34 of 216 internal control reports (16 percent) issued on school district internal controls contained various findings about payments for personal services (including salary and unused leave payments) primarily to senior officials to which they were not entitled, or which the board had not authorized through a collective bargaining agreement, written contract, or resolution. Even with approved written contracts in place, some school district internal controls did not prevent unauthorized payments. Similar to inappropriate separation payments, this weakness is related to inadequate internal controls over payroll and leave-time processing and poor board oversight over payments to employees.

Payroll and personal services represent a large portion of school districts' annual budgets. As a result, it is important for districts to have adequate internal controls over the payroll process that consist of

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written policies and procedures, and to have written board authorization for payroll- and personal services-related payments. District-wide policies, collective bargaining agreements and/or individual employee contracts should stipulate each employee's entitlement to the accrual, use and payment of leave time. Merit and stipend payments should occur only as authorized by the board in policies, agreements or contracts, or by separate board resolutions. Transparency in all board-approved benefits is an important consideration, so well-structured documents should address all pertinent aspects of employment and contain all salary and benefits to which employees are entitled. In addition, school districts must establish procedures that ensure that employees receive only those payments authorized by contracts, and the board must monitor those procedures and oversee such payments.

Claims Audit Deficiencies

In 2008, 77 of 216 internal control reports (36 percent) issued on school district internal controls contained findings about a deficient claims auditing function. Frequently these findings identified incompatible duties and inadequate procedures for the claims audit function. Some claims auditors did not report directly to the board of education, while others had incompatible business functions where they authorized transactions as well as approved payment for them. When performing the claims audit, sometimes auditors approved claims without evidence of department reviews and approvals, prior authorization of travel expenses and/or documentation to support the amounts claimed. We also identified school districts that made payments to vendors without the benefit of any claims audit to ensure the accuracy and propriety of the vendors' bills.

The claims audit is such a critical function that it was one of the main components in the Five-Point Plan legislation. Because a claims auditor assumes the powers and duties of the board with respect to auditing and approving claims for payment, the Five-Point Plan requires that the individual report directly to the board and not have an incompatible position or perform business-related duties. Moreover, Education Law specifies that districts should not pay any claims without audit and approval.

An internal audit should conduct a thorough review of the claims audit function as part of its risk assessment. Good claims auditing controls should ensure that every claim contains enough supporting documentation to determine that it complies with school district policies, and that the amounts claimed represent actual and necessary school district expenses. In addition, the boards that appoint claims auditors should provide them with written job descriptions, so they clearly understand their responsibilities and meet the boards' expectations.

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Financial Condition Problems

Findings regarding financial condition problems were included in 20 of 216 internal control reports (9 percent) issued. Although the development of realistic budgets is essential for school districts to avoid fiscal stress, we found that some districts had inadequate budgets that over-relied on appropriating fund balance or using nonrecurring revenue sources to fund expenditures. In other cases, auditors found that district officials did not accurately record and report the districts' financial activities to allow the boards to monitor and evaluate the districts' financial condition in a timely manner. As a result, district officials subsequently over-expended appropriations and the districts' fund balances deteriorated to a deficit position.

A school district's financial condition determines its ability to provide public educational services to its students. The responsibility for effective financial planning and management of school districts rests with the board of education and district management. The board and district management must make sure that budgets are prepared, adopted, and amended based on reasonable and accurate assessments of resources that can be used to fund appropriations. They must also make sure that policies, procedures, and competent personnel are in place to ensure that financial information is recorded correctly and in a timely manner. Accurate financial information allows boards to perform periodic analyses of district appropriations and revenues, and to plan appropriately and act accordingly during the fiscal year.

Positive Audits

In 2008, 11 of 216 internal control reports (5 percent) issued on school district internal controls contained positive findings in the areas of purchasing/procurement, payroll, computerized financial system security, gasoline credit accounts, and cellular telephones. Overall, auditors found the system of controls in place in these schools and a school-related entity were well designed and operating effectively.

Alexander Central School District	Oppenheim-Ephratah Central School District
Dobbs Ferry Union Free School District	Plainview-Old Bethpage Central School District
Eastport-South Manor Central School District	Port Jefferson Union Free School District
Fire Island Union Free School District	Saratoga Springs City School District
Herkimer-Fulton-Hamilton-Otsego BOCES	Shenendehowa Central School District
Indian River Central School District	

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A good system of internal controls over payroll includes having both effective managerial oversight and a proper segregation of duties. In five of the 11 reports, auditors found that officials had implemented adequate procedures and controls to decrease the risk of error and irregularities associated with the payroll process and conflicting duties. Within the purchasing and procurement areas, auditors found that three districts were using their resources effectively and complying with applicable laws and regulations.

School districts' IT systems and the data stored on them are critical resources that the districts rely on to initiate, process, and record financial transactions. In one audit that had positive findings regarding procurement and IT systems, auditors found that the district generally established adequate control policies and procedures to safeguard the district's IT system, which included limiting access to the computerized financial system, adequately backing up and securing data, and creating a comprehensive disaster recovery plan to protect the district's IT system and data from the risk of loss, damage, or misuse.

Another positive audit found that one district had established adequate controls over gasoline credit account usage, which included providing personal identification numbers for employees who were authorized to use the gasoline credit accounts; requiring vendors to provide sufficient, detailed information for all gasoline purchases; and having a clerk review all gasoline account statements for discrepancies. That same audit also found that the district had been generally proactive in monitoring cellular telephone expenses. The district properly used an existing state contract to procure cellular telephone services, monitored the number of cellular telephones in use, and took appropriate action to reduce cellular telephone expenses by evaluating usage and decreasing the number of phones covered under a more expensive plan.

SECTION 3:

PLANS FOR 2009

Emerging Issues

The Division of Local Government and School Accountability (LGSA) has identified several emerging issues that it will focus on in its audits in 2009. These issues represent potential opportunities for individual school districts to improve their financial operations and opportunities for the Office of the State Comptroller (OSC) to provide better guidance and education to school officials. We will continue to focus on the health effects and costs associated with childhood obesity. We also will ensure that school board members comply with their training requirements as required by Education Law and the Regulations of the New York State Commissioner of Education. In addition, OSC auditors will closely examine the effectiveness of the internal audit function in place at school districts during audits performed in 2009.

Nutrition and Physical Education Audits

In 2008, as part of the growing concern about the health effects and costs associated with childhood obesity, LGSA auditors determined whether school districts were complying with the New York State Commissioner of Education's physical education regulations. As part of this effort, we also determined whether school districts were providing students with nutritious meals and other foods.

The division audited the physical education programs of 20 school districts and issued a report in December 2008 entitled, "School Districts' Compliance With Physical Education Requirements" (2008-M-6). The auditors found that only one school district, the Homer Central School District, fully complied with the regulations. Typically, auditors found that younger students did not receive sufficient physical education. For example, 18 of the 20 school districts did not provide students in Kindergarten through Grade 3 with the minimum requirements, providing only about 48 percent of the classes with the full requirements and 72 percent of the class time needed. Similarly, 16 school districts fell short of the requirements for their Grade 4 and 5 students, and 17 schools failed to provide enough physical education to Grade 6 students. However, we found that most school districts provided their older students with enough physical education. In addition, LGSA is in the process of auditing state nutrition requirements in 20 school districts. This audit examines the sufficiency of school wellness policies and the nutritional aspects of school lunches, à la carte items, vending machine food products, and food items available to students in school stores.

Charter School Audits

In December 1998, New York State authorized the creation of charter schools by instituting Article 56, Section 2850 through Section 2857, of the Education Law, which is known as the New York Charter Schools Act of 1998 (Act). Charter schools provide opportunities for teachers, parents and community members to establish and maintain schools that operate independently of existing schools and school districts. Charter schools are exempt from most state and local laws, rules and regulations, except those governing health, safety, civil rights, and student assessment. They are funded on a per student basis by the local public school districts from which their enrollments are drawn.

In 2008, there were 115 authorized charter schools operating in New York State:

Charter Schools in New York State During 2008	
Location	Number of Charter Schools
New York City	77
Buffalo and Niagara Falls	16
Albany, Schenectady and Troy	11
Rochester	5
Long Island	3
Syracuse	2
Westchester	1
Total	115

On April 29, 2008, the State Supreme Court ruled that the State Legislature lacked the constitutional authority to require the State Comptroller to audit the finances or performance of charter schools. OSC filed a notice of appeal with the Appellate Division, Third Department, on May 5, 2008. By an order dated May 16, 2008, the Appellate Division prohibited OSC, during the appeal, from performing any further audits or issuing any reports with respect to any of the plaintiff New York City charter schools, and from issuing reports with respect to other charter school audits.

OSC has stopped conducting audit work in and issuing audit reports on all charter schools until the issues raised are resolved by the courts. Accordingly, it is possible that we will not complete the statutory mandate of auditing all charter schools by March 31, 2010.

Board Members' Compliance With Education Requirements

Since 2005, pursuant to Education Law and the Regulations of the New York State Commissioner of Education, new school board members have been required to complete a minimum of six hours of training within the first year of their terms on their financial oversight, accountability, and fiduciary responsibilities as school board members.

Shortly after the laws became effective, OSC auditors found that board members enthusiastically complied with the training requirement. Now that school boards have experienced some turnover in their membership, OSC plans to ensure that new board members are complying with their educational requirements.

Internal Audit Function

School districts will be audited at least once by OSC before March 31, 2010, and generally are audited annually by independent auditors who express an opinion on the reliability of the school's financial statements. External audits are an important part of an effective control environment, but represent only a portion of a school's audit function. Internal audits are vital companions to external audits. All but the smallest school districts² were required to establish internal audit functions by July 1, 2006, and to ensure that this function was operational by the end of 2006.

² Education Law defines the smallest school districts as those with fewer than eight teachers, less than 300 students, or less than \$5 million in annual expenditures.

A school district’s internal audit function must include the development of a risk assessment of district operations including, but not limited to, a review of district financial policies, procedures, and practices, and testing and evaluation of internal controls. The internal auditor must review and update the risk assessment annually and periodically test and evaluate one or more areas of the district’s operations. The legislative requirements of the internal audit function demonstrate that it is not intended to be a perfunctory process accomplished through the quick completion of a few checklists, but rather a comprehensive tool that allows districts to identify where their operations are most vulnerable.

When conducting its 2009 audits, OSC will closely examine school districts’ internal audit functions. We will determine whether the internal audit function is performed in a manner that assists the governing board in ensuring that the district’s risks are identified and that appropriate internal controls are in place to address those risks. The seriousness of the efforts devoted to establishing an effective internal audit process is a strong determinant of the control consciousness of district officials.

Continue Audits

Given that the legislation calls for OSC to perform all of the school audits by March 31, 2010, we will start every remaining school audit before June 30, 2009, except for the charter school audits. Due to pending litigation,³ we will not conduct or issue charter school audits without receiving the courts’ approval to continue these audits. Regardless, OSC will issue approximately 220 school audits in 2009.

New York State Schools	
School Districts	699
BOCES	37
Charter Schools	115
Total	851

³ Refer to the Charter School Audits section for further information.

SECTION 4:

TRAINING, EDUCATION AND OUTREACH

Increased Education and Outreach in 2008

During 2008, the Office of the State Comptroller (OSC) continued its commitment to education and outreach for school district officials. Through November 2008, the Division of Local Government and School Accountability (LGSA) provided training to school district officials at 10 different major training events. In addition, OSC, in collaboration with the New York State School Boards Association (NYSSBA), has continued to provide a low-cost, online distance-learning alternative to help school board members meet their training requirements. Responses to this training alternative have been excellent, reaching nearly 600 school district officials since its inception in 2007.

Other training highlights in 2008 included:

- **Business Officials Outreach** – In February 2008, OSC’s outreach efforts reached more than 200 school business officials at a meeting of the Nassau and Suffolk county chapters of the New York State Association of School Business Officials (NYSASBO). An OSC presenter spoke at the meeting on significant school district audit findings for 2007.
- **NYSASBO 60th Annual Meeting** – In the beginning of June 2008, NYSASBO held its 60th annual meeting in Saratoga Springs. OSC provided a session entitled “OSC Audits of Schools.” This session reviewed the audits completed to date by OSC and the implications of those audits’ findings. In addition, the session included a discussion on school board members’ responsibilities relating to information technology policies, the audit of claims, and the effect of the management control environment (“tone at the top”).
- **NYSASBO Workshops** – In cooperation with NYSASBO, OSC provided training sessions at nine regional NYSASBO spring workshops. These training sessions covered topics such as information technology audits, interim financial reporting, and school district officials’ responsibilities regarding responding to an audit through a corrective action plan. In addition, in cooperation with NYSASBO, OSC provided half-day training sessions on claims auditing to 195 attendees at five regional workshops in the fall.
- **Governmental Accounting Schools** – OSC provided eight governmental accounting schools (four basic and four advanced) throughout the state for local government and school district officials. Eighty-six school district officials attended these accounting schools during 2008. OSC staff also developed comprehensive accounting manuals, and district officials expressed that this material has been helpful to them in addressing OSC’s audit findings in the schools. Topics covered at the accounting schools and in the accounting manuals include cash management, purchasing and claims processing, capital projects, maintaining capital assets, and basic accounting principles.

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- ST-3 Issues – School districts statewide must submit annual financial reports (ST-3 reports) to the New York State Education Department and OSC. The ST-3 report is an unaudited document, which displays each school district’s reported expenditures and revenues. OSC staff wrote an article for NYSASBO’s summer newsletter that provided information on some of the problems noted in the ST-3 reports and solutions for school officials to implement to avoid making these common mistakes.
- Local Official Training Clearinghouse – In September 2008, OSC, in collaboration with Cornell University’s Community and Rural Development Institute (CaRDI), launched the Local Official Training Clearinghouse website, a searchable online training database for local government and school district officials. The database lists information about training events that includes dates when training sessions are scheduled, names of training providers, and names and locations of training events. Through links on the Clearinghouse website, local government and school district officials can find detailed information about various training events, visit the website of the organization sponsoring the training, and register for certain programs.
- NYSSBA’s Annual Meeting – Approximately 3,000 school board members attended NYSSBA’s annual meeting in New York City at the end of October. OSC provided technical assistance and valuable resource materials to these officials at the conference. The technical assistance involved clarifying issues with audit committees, internal auditors, and roles and responsibilities of board members. OSC staff also showcased the Open Book application and the Local Official Training Clearinghouse at the conference.

Online Training

One component of the Five-Point Plan is that all school district board of education members and Board of Cooperative Education Services (BOCES) board members elected or appointed after July 1, 2005, must receive six hours of training from an approved provider on the basics of financial oversight, accountability, and fiduciary responsibilities. The approved curriculum consists of the following training modules: *School District Finances – Roles and Responsibilities*; *Revenue Sources and the Budget Process*; *Building School District Fiscal Fitness*; *Monitoring School District Fitness*; and *Preventing Fraud, Waste and Abuse of District Resources*.

In May 2007, OSC collaborated with NYSSBA and launched a low-cost, online, distance-learning alternative for school board members to help them meet this training requirement. Board members can complete all five training modules using this online program, which is hosted by Hudson Valley Community College (HVCC). They can register for the training online through HVCC, complete the online modules (including related examinations) and receive a certificate from NYSSBA upon

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completion. Each session is available for a six-week period. Board members may complete all five modules online or use a mix of online and other approved training alternatives to meet their certification requirement.

Also, in October 2008, OSC offered the first in a series of free online tutorials which are designed to help local government and school district officials improve their working knowledge of financial best practices. These online tutorials are designed to provide free training on a range of financial topics to help build knowledge and implement best practices at the local level in a cost-effective way. The first tutorial covered effective cash management and serves as a beneficial starting point for new staff with cash management duties. Although vast differences exist in the size and nature of local governments and school districts, and the dollar value of their investment transactions, the concepts covered in the tutorial can be applied to any type of government unit.

School District Financial Toolboxes

OSC released various publications designed to be responsive to school officials' needs during 2008, which included the Local Government Financial Toolboxes, a series of "how-to" guides that provide local government and school officials with advice and assistance on cost-saving ideas to implement within their operations. OSC released nine financial toolboxes this year that address various needs for local governments and school districts, including *Capital Planning for Local Governments and School Districts*, *Credit Card Accountability*, *Electronic Banking*, *Going Green and Saving Greenbacks*, *How to Reduce Energy Costs*, *Managing Workers' Compensation Costs*, *Managing Your Travel and Conference Expenses*, *Overtime Planning and Management*, and *Reviewing Your Revenue Collection Process*.⁴

Local Government and School Management Guide Update

This series of publications, collectively called the *Local Government and Management Guide* (LGMG), address a variety of management and operational issues faced by small- to medium-sized local governments and school districts. When completed, the LGMG will have 19 sections, each referred to as a "guide."

OSC released the following LGMG guides in 2008: *Cash Management Technology*, *Personal Service Cost Containment*, *Improving the Effectiveness of Your Claims Auditing Process*, *Travel and Conference Expense Management*, *Management's Responsibility for Internal Controls*, *Understanding the Budget Process*, and *Financial Condition Analysis*.⁵

⁴ These financial toolboxes are available on OSC's website at: www.osc.state.ny.us/localgov/costsavings/index.htm

⁵ These LGMG guides are available on OSC's website at: www.osc.state.ny.us/localgov/pubs/listacctg.htm#lmgm

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- *Cash Management Technology.* Technology is making our lives easier and our governments more efficient. The trend toward electronic payments and collections in both our personal lives and in government operations is increasing each year. With time, electronic transactions (both receipts and disbursements) will be the dominant form of financial transactions. The use of newer technologies requires the review of current procedures to ensure that the design of internal controls is appropriate for processing transactions electronically. Some of the newer technologies can speed up the recording and depositing of receipts and can help ensure that disbursements are properly recorded, while reducing the cost of processing these transactions. However, traditional internal controls – such as adequate written policies and procedures, authorizations, segregation of duties, and monitoring – are still important in our new technological world. This guide provides an overview of the practices that local governments and school districts presently use when handling electronic cash transactions. Also, the guide provides a description of control activities used to prevent abuse, detect fraud, and to ensure that all transactions are captured. Other areas of discussion include the use of direct electronic cash transfers, Automatic Clearing House (ACH) transactions, check stock protection, and electronic deposit of cash receipts.
- *Personal Service Cost Containment.* Employee benefits and salaries are significant expenditures for local governments and school districts. On average, school districts and local governments spend nearly 57 percent of their annual budgets on employee benefits and salaries. Employee benefit costs consist largely of retirement contributions, social security, workers' compensation, and health insurance costs. With such a significant amount of the annual budget earmarked for employee benefits and salaries, it is important to realize that even the smallest percentage of cost reductions can amount to extensive dollar savings. This guide is designed to assist local governments and school districts in containing personal service costs. The best practices included in this guide provide local government and school officials with guidelines to follow when designing health insurance buyout plans and "cafeteria" plans, and when considering implementing flexible scheduling to decrease overtime costs, among other topics.
- *Improving the Effectiveness of Your Claims Auditing Process.* The audit of claims is one of the few control procedures that is often executed directly by the governing board. To ensure that tax dollars are spent efficiently, it is essential that a thorough, deliberate and independent audit of claims be conducted before payments are authorized. With constant pressure to do more with less, local governments and school districts cannot afford to overpay vendors, lose discounts, or pay for goods and services not received. An effective audit of claims is often the last line of defense in preventing unauthorized, improper, or fraudulent claims from being paid. This guide discusses how the board's responsibilities are effected when it establishes the position of claims auditor. The guide provides abundant information on how to properly audit claims and handle problem claims, and it explains how to audit the different types of claims and the different risks involved with each type. The practical and technical information contained in this guide provides the knowledge that governing boards and claims auditors need to improve the effectiveness of their claims auditing function.

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- *Travel and Conference Expense Management.* Local government and school district officials and employees often travel as part of their official duties, whether it is to attend conferences, training sessions, or to perform other job-related duties. Travel and conference expenses are generally not a significant budgetary item, so it is not the overall cost of these items that creates the need for diligent oversight. Rather, opportunities for improper or even fraudulent reimbursements make travel and conference a risk area that management must address. A long line of audit findings have emphasized the need to provide guidance regarding the management of travel and conference expenses. This guide provides you with an overview of key elements that you should consider when developing or updating your travel and conference policy. The guide includes practical discussions on establishing lodging, meal, and mileage rates; standardized travel forms; using credit cards and cash advances to pay for travel; the extension of travel for personal reasons; travel expenses of spouses and other non-employees; and other topics associated with the management of travel and conference expenses.
- *Management's Responsibility for Internal Controls.* Internal controls are essential to the effective operation of local governments and school districts. Simply put, internal controls are activities or procedures designed to provide reasonable assurance that operations are “going according to plan.” Without adequate controls, managers have little assurance that their goals and objectives are being met. At the same time, properly designed controls can reduce the likelihood that errors and/or fraud can occur and remain undetected. When the subject of internal control is discussed, the conversation frequently centers on control activities or procedures, rather than the internal control framework taken as a whole. This guide is designed to assist local government and school district officials in understanding the components of an integrated internal control framework. Based largely on the work of the Committee of Sponsoring Organizations (COSO), this guide provides a practical discussion of key COSO concepts and the benefits of establishing an audit committee or an internal auditor position.
- *Understanding the Budget Process.* An annual budget, sometimes referred to as the “operating budget,” is the document that describes in detail the financial plan of a local government or school district for a fiscal year. The annual budget is perhaps an entity’s most vital document and should be developed using all of the most current and accurate information available. The budget is not just a financial plan; it also has legal implications. The budget process does not end with the adoption of the budget. Instead, the budget is a document that must be monitored and amended from time-to-time, as needed. This guide is a resource for those governing bodies and officials who are responsible for preparing, developing, and monitoring the annual budget. It discusses the nuts and bolts of budget development, including preparing expenditure, revenue, and fund balance estimates. It also discusses recording the adopted budget in the accounting records and monitoring budget estimates-versus-results of operations throughout the year.

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- *Financial Condition Analysis.* Financial condition may be defined as the ability of a local government or school district to balance recurring expenditure needs with recurring revenue sources while providing services on a continuing basis. Maintaining or restoring sound financial condition requires local government and school district officials to adjust to long-term socioeconomic and demographic changes, respond to the economic impact of the business cycle, and plan for the future. Performing a regular, timely financial condition analysis can provide you with valuable information on the current and future state of your finances. Regular analysis can highlight potential fiscal problems and provide information necessary for timely corrective action. By taking action to address weaknesses and strengthen fiscal health, you can better ensure that resources are available to fund the level and quality of services expected by taxpayers. This guide provides guidance on defining and assessing financial condition, using analytical tools to evaluate your financial condition, and improving your financial condition through corrective actions.

Other Educational Efforts

OSC was joined in its efforts to train school officials by state agencies and professional associations. The State Education Department (SED) developed a wide range of training materials and conducted numerous school accountability workshops for various school district officials, including school board members, school superintendents, business administrators, district treasurers, certified public accounting (CPA) firms, purchasing agents, claims auditors, internal auditors, and audit committee members. These workshops and seminars are designed to train these individuals on how to maintain the fiscal health of school districts to ensure that school districts adhere to all legal mandates relating to financial transactions.

SED's extensive ongoing training efforts are supported by the development of guidance documents and reference manuals which are available online for easy access. These guidance documents include the Overview of Claims Audit and Internal Audit Function, Audit Reference Manual, Fiscal Fitness, School Budgeting, Internal Controls, Purchasing, Payroll, and School Taxation. In addition to these publications, SED also is responsible for implementing the Contracts for Excellence Program, which combines fiscal, program, and performance accountability. The department works with 39 participating school districts on the requirements of this program and provides extensive guidance material online. SED also coordinates with BOCES staff to implement legal and shared-services programs for school districts.

In 2008, SED presented training programs in reserves and fund balance management, purchasing, internal controls, fiscal fitness, general management services, treasury, internal controls and extra-classroom activities, and payroll. More than 2,200 school officials attended these workshops and seminars.

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The New York State Society of Certified Public Accountants (NYSSCPA) strives to provide the highest quality educational information to CPAs who offer audit services to local school districts and to interested school board members and school district officials. Another of NYSSCPA's goals is to raise the level of practice awareness to protect public tax funds provided for student education. The association sponsors an annual Public Schools Accounting and Auditing Conference designed for accounting and auditing practitioners, staff accountants, government and public school executives, school board members, and financial employees. This joint government and public school audit conference is designed to provide updates in areas of interest in the government and public school sector and to provide essentials to those who are less familiar with accounting and reporting requirements.

In 2008, NYSSCPA conference topics included Auditing Standards and the Single Audit Update; Ethics: What's New on the Horizon?; School Budgets and Reserves: Navigating the Complex Legal and Accounting Issues of Today; IRS Reporting and Compliance: W-2 and 1099 Reporting; and Other Post Employee Benefits (OPEB): The Continuing Saga.

The New York State Council of School Superintendents (NYSCOSS) provides numerous professional development opportunities, publications, and personal services to its members while advocating for public education and superintendents. In conjunction with the Leadership for Educational Achievement Foundation, Inc. (LEAF), the council offers several workshops, multi-series programs, two institutes (year-long and summer), and three conferences (fall, mid-winter, and summer). In 2008, more than 1,500 attendees participated in these educational opportunities.

The New York State Association of School Business Officials (NYSASBO) strives to provide opportunities to equip school business officials to continue meeting the challenge of effectively and efficiently managing the business operations of public school districts in the state. In 2008, NYSASBO training opportunities encompassed an annual conference, a summer business management workshop with five different tracks geared toward specific school business positions, and 14 single-topic workshops in multiple locations. Nearly 3,000 school business professionals attended these training sessions during the year.

The New York State School Boards Association (NYSSBA) serves as the statewide voice of more than 700 boards of education. The collective influence of some 5,000 school board members, who constitute half of the elected officials in the state, enables the association to work toward benefiting the elementary and secondary public school system. The association provides current information and advice to school board members on matters that affect school boards, and it cooperates with other educational and school-related organizations in promoting excellence in education. NYSSBA's professional education events include three multi-location academies, seven conferences, seven multi-location workshops, and one multi-location "boot camp" along with several co-sponsored events. About 1,400 participants attended these events through September 2008.

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Education and Outreach Plans for 2009

To assist school officials in their efforts to improve safeguards over school assets and strengthen operations, OSC is in the process of developing additional revisions to its *Local Government Management Guide* (LGMG), additional online training including more online tutorials, and other training sessions for local government and school officials that are focused on needs that have been identified by OSC auditors during audit fieldwork performed in 2008. Future LGMG releases will provide information on competition in the procurement process, fiscal oversight, reserve funds, capital project management, indebtedness, and the practice of internal control.

Working with its partner organizations, OSC will continue to identify emerging school district financial issues in coming years and provide additional specific training and guidance to school district officials to help them continue improving their financial operations.

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