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State of New York  
Office of the State Comptroller  
Division of Municipal Affairs



**The University of The**  
**State of New York**

The State Education Department  
Office of Audit Services  
Albany, New York 12234

# **Greater Amsterdam School District**

## **Report of Examination**

**2001M-108**

**August 10, 2001**

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H. Carl McCall, State Comptroller  
Patricia Lamb McCarthy, Deputy Comptroller  
Division of Municipal Affairs  
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Richard H. Cate  
CHIEF OPERATING OFFICER  
Tel. (518) 474-2547  
Fax (518) 473-2827

**To: David Squillace, President of the Board of Education  
Sandra Griffin, Vice President, Ronald Limoncelli,  
Superintendent, Robert Blinsinger, Alexander Fabozzi,  
Herbert Scialabba, Peter Marotta, Emanuel Rosen, Anthony  
Vecchio, James Walrath, Board Members**

**From: Richard H. Cate and Patricia Lamb McCarthy**

**Subject: Greater Amsterdam School District- Final Audit Report**

We enclose the final audit report (2001M-108) related to the examination of the Greater Amsterdam School District (District) for the period July 1, 1998 through March 30, 2001. The examination was conducted jointly by the Office of the State Comptroller and the State Education Department.

We believe the keys to success in improving the District's fiscal health are: the preparation of budgets which include sound estimates; timely and periodic monitoring of the budget; accurate and timely financial reports; and accurate and timely filed state aid claims. To obtain these objectives and to ensure compliance with statutory requirements and good business practice, the District's management should implement and maintain a strong system of management controls. Office of the State Comptroller and State Education Department staff are prepared to assist the District in improving its fiscal and administrative operations. However, the impetus to achieve the necessary improvements must come from the Board of Education working with the Superintendent and senior managers.

Within ninety days of the issuance of this report, the District should submit a plan of action that addresses our recommendations. We appreciate the cooperation and courtesies extended to the staff during the examination.

**Enclosure**

**cc: See attached distribution list**

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**Board of Education**  
**Greater Amsterdam School District**  
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**Amsterdam, NY 12010**

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**Chief Operating Officer**  
**New York State Education Department**  
**Room 125 EB**  
**Albany, NY 12234**

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**District Superintendent of Schools**  
**Hamilton-Fulton-Montgomery BOCES**  
**Suite One**  
**25 West Main Street**  
**Johnstown, NY 12095-0665**

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**Glens Falls, NY 12801**

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**Amsterdam, NY 12010**

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Glens Falls, NY 12801**

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Deputy Commissioner for Elementary, Middle, Secondary and Continuing Education  
New York State Education Department  
Room 875 EBA  
Albany, NY 12234**

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Superintendent of Schools  
Greater Amsterdam School District  
Central Administration Building  
11 Liberty Street  
Amsterdam, NY 12010**

**Mr. Peter Marotta  
155 Stewart Street  
Amsterdam, NY 12010**

**The Honorable H. Carl McCall  
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New York State Office of the State Comptroller  
Alfred E. Smith State Office Building  
6<sup>th</sup> Floor  
Albany, NY 12236**

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New York State Education department  
Room 111 EB  
Albany, NY 12234**

**Ms. Sarah Morrison  
Audit Manager  
Charles L. Marvin and Company  
3000 Troy-Schenectady Road  
Schenectady, NY 12309-1647**

**Mr. William Mycek  
School Attorney  
Greater Amsterdam School District  
11 Liberty Street  
Amsterdam, NY 12010**

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Director of Finance  
New York State Education Department  
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Albany, NY 12234**

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Board of Education  
Greater Amsterdam School District  
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**Room 885EB**  
**Albany, New York 12234**

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Member of the Assembly  
Amsterdam District Office  
Guy Park Manor  
366 West Main Street  
Amsterdam, NY 12010**

**Mr. Lawrence S. Trzaskos  
34 Tunnel Rd.  
Willsboro, NY 12296**

**Mr. Daniel Tworek  
Director  
Office of Audit Services  
New York State Education Department  
Room 524 EB  
Albany, NY 12234**

**Mr. Anthony S. Vecchio  
Member  
Board of Education  
Greater Amsterdam School District  
1429 Midline Rd  
Amsterdam, NY 12010**

**Mr James Walrath  
Member  
Board of Education  
Greater Amsterdam School District  
16 Crane Street  
Amsterdam, NY 12010**

Report: 2001M-108  
Filed: August 10, 2001

**TO THE PRESIDENT AND MEMBERS  
OF THE BOARD OF EDUCATION  
OF THE GREATER AMSTERDAM SCHOOL DISTRICT,  
MONTGOMERY COUNTY, NEW YORK:**

The following is our report on the District's finance related managerial controls. The issues and concerns identified in this report should be studied considering the District's unique needs and circumstances. Implementation of our recommendations regarding the District's finance related management controls will result in improved financial management and accountability on the part of the District and improved understanding by taxpayers and others who provide the District's fiscal resources.

Among my top priorities as the State Comptroller is to maintain a strong partnership between my office, state agencies, and the local governments of New York State. One of the main objectives of this partnership is to assist local governments in improving their financial condition and strengthening their financial planning, management and budgetary control systems. Members of my municipal audit staff and the staff of the State Education Department's Office of Audit Services have worked diligently with School District officials and have produced this report that I believe will assist School District officials in improving the District's financial operations.

Strengthened financial management systems allow School District officials to identify current and emerging fiscal problems before they disrupt operations, develop plans for addressing these concerns and monitor the effectiveness of any corrective action taken. Therefore, it is vitally important that the financial management recommendations in this report be addressed so that the School District officials have better information upon which to base management decisions.

Maintaining a strong partnership between my office, the State Education Department, and the District will enable us to serve the taxpayers more effectively by making better use of our limited resources. Toward this end, I look forward to continuing to work with your District and all other local governments throughout the State.

If my office can be of assistance to you or if you have any questions concerning this audit report, please feel free to contact my Glens Falls regional office listed at the back of this report.

Very truly yours,

***Office of the State Comptroller***

OFFICE OF THE STATE COMPTROLLER  
DIVISION OF MUNICIPAL AFFAIRS

Albany, New York  
March 30, 2001

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## INTRODUCTION

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· Authority ·

This examination of the Greater Amsterdam School District was conducted jointly by the Office of the State Comptroller and the State Education Department pursuant to the State Constitution, Article V, §1, Article 7 of the Education Law, and further authority vested in the State Comptroller by Article 3 of the General Municipal Law.

· Background ·

The District has an enrollment of approximately 3,700 students. It is a small city school district (population of less than 125,000). The District is currently experiencing fiscal stress and received a \$1 million grant-in-aid from the New York State Legislature in October of 2000 to assist in addressing the District's fiscal difficulties. As a condition for the receipt of the grant-in-aid, the District is required to submit quarterly financial reports to the Commissioner of Education.

The Office of the State Comptroller and the New York State Education Department reviewed the District's financial condition and issued a joint Report of Examination on March 23, 2001. During the performance of the audit, we also noted improvement opportunities in the District's managerial and financial controls and operations. We decided to review and report on these opportunities in a second Report of Examination since we believed that it was necessary to focus on the District's financial condition in the first report so that the District's management could begin to make the necessary plans to avoid a further deterioration of the District's financial condition.

· Purpose and Scope ·

Our responsibilities were to review the managerial controls related to the fiscal operations of the District in order to identify the areas needing improvement and to inform District officials and the public of our findings and recommendations. Consistent with these responsibilities, this examination's objectives were to identify improvement opportunities in the District's fiscally related managerial controls, financial planning and management process related to financial position for the period July 1, 1998, through March 30, 2001. This report should be viewed as a resource to be used by District officials and the public to determine the improvement opportunities available to the District and begin the implementation of such improvements.

Our examination consisted of a review of the District's finance related managerial controls. The staff of the Office of Audit Services Unit of the State Education Department reviewed the District's state aid claiming and reporting process for the period July 1, 1995 through September 30, 2000 to determine if the District had adequate systems and controls in place to ensure valid and reliable data to support claims for state aid are obtained, maintained, and fairly disclosed in reports on a timely basis.

During the course of this examination, we noted that the District has opportunities for

improvement with respect to compliance with Regulations of the Commissioner of Education, state statutes, guidance of the Office of the State Comptroller, and prudent business practices.

These improvement opportunities are discussed in more detail in the “Results of Examination” section of this Report of Examination.

### **• Methodology •**

To accomplish our objectives, staff from the Office of the State Comptroller and the State Education Department (SED) reviewed preliminary financial information and agreed upon the areas of concern to be addressed by the staff from each office. We then met with District officials to determine their needs and concerns. We reviewed the District’s financial information and state aid claims, interviewed District officers and employees involved in the administrative and financial functions of the District and observed the District’s financial recording and reporting process. We also interviewed the District’s independent auditor and reviewed the annual audit reports for the period June 30, 1995, through June 30, 2000.

Based upon our review and interviews, we assessed risk and identified issues that we believe merited additional study and analysis. This approach focused our efforts on those issues that we believed had the greatest need for improvement. As a result, our report highlights areas needing further study and improvement and does not address activities that may be functioning properly or even well above expected performance levels.

SED staff contributed information to this report in relation to the comments and findings in the area of State Aid.

We conducted our examination in accordance with Generally Accepted Government Auditing Standards. Such standards require that we plan and perform our examination to adequately assess those areas included within our examination scope. Further, these standards require that we assess the District’s management controls when necessary to satisfy our audit objectives. Our examination included tests that we considered necessary to satisfy our audit objectives. We believe that our examination provides a reasonable basis for our report. It was not our objective to, and we do not, express an Audit Opinion on the financial statements of the District.

### **• Corrective Action •**

The Board of Education has the responsibility to initiate corrective action. In accordance with Section 35 of the General Municipal Law, the Board should review this report and prepare a plan of action that addresses our recommendations. Any such plan should be available for public review in the District clerk’s office and should be forwarded to the State Comptroller’s Office within 90 days of the receipt of this report. Our offices are available to assist you by providing guidance for preparing the plan.

## **RESULTS OF EXAMINATION**

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**New York State Office of the State Comptroller  
Component of  
The Report of Examination**

**Revenue Anticipation Note**

In our previous Report of Examination, we noted that the District had issued a \$3 million revenue anticipation note (RAN) in January of 2000. During this phase of the examination, we reviewed the issuance and subsequent renewals of the note for compliance with the requirements of Section 25.00 of the Local Finance Law and noted the following:

In December 1999 the Board of Education (the Board) approved a resolution which authorized the issuance of the RAN. However, the resolution was not sufficient because it did not adequately identify the specific revenue against which the note was issued. Since the District's primary source of financing operations is state aid, we believe that the District issued the note against state aid.

When the note matured in June of 2000, the District renewed it in the amount of \$3 million. While the President of the Board signed the renewal note, we found no mention in the minutes of the Board that the renewal of the note had been properly authorized.

When the first renewal of the note matured on December 31, 2000, the District made no payment on the note. At that time the District was required to have already set aside approximately \$1.2 million toward the retirement of the note. Subsequently, on January 17, 2001 the Board authorized the note to be renewed in the amount of \$ 3 million. As of the date of renewal, however, the maximum amount of the renewal permitted by law was only approximately \$1.8 million.

As of March 30, 2001, the District's management had not advised us of any formal plan to provide for the retirement of the note.

In the future, prior to taking action to issue or renew indebtedness, district officials should consult with legal counsel and others knowledgeable about such matters. If District officials believe that the District will be unable to retire the note on or before the statutory deadline (June 30, 2002), they should continue their efforts to secure special legislation which addresses this issue.

### **Segregation of Duties**

There is significant opportunity for improvement in the segregation of duties in the District's business office. Several of the employees in the business office have duties or responsibilities involving authorization of transactions, custody of assets, and record keeping and some of the employees perform all of these duties or responsibilities and also perform reconciliations.

There are four general categories of duties or responsibilities that should be segregated:

- Authorization
- Custody
- Record Keeping
- Reconciliation

When an individual has two or more of these duties or responsibilities, there is an increased risk

that errors or irregularities will occur and not be detected and corrected in a timely manner.

We noted that the District attempted to implement some compensating controls. For example, the Business Manager indicated approval of the payrolls by signing a "Payroll Covering Worksheet" which contains the total amounts for teaching and non-teaching payrolls. However, we noted no evidence of a review having been performed to determine that only authorized changes, such as salary adjustments, had been made. The District's data processing software has the ability to produce an exceptions report that would detail all changes made since the previous payroll, but since no one has requested this printout in the past year, the data processing office has not been producing it. If the Business Manager had obtained the exceptions report and compared it to the authorized changes, prior to approving the payroll, this would have been an acceptable compensating control.

We urge the District's management to undertake a comprehensive review of the business office's managerial controls and take action to ensure that no individual has two or more of the above listed categories of duties or responsibilities. We encourage the District's management to take full advantage of the capabilities of their data processing system to assist in achieving an adequate segregation of duties in the most efficient and economical manner possible.

### **Inadequate and Inaccurate Reports**

We reviewed the February 28, 2001 treasurer's report and the financial report, required by the terms of the \$1 million grant-in-aid, for the second quarter, ended December 31, 2000, of the 2000-2001 fiscal year which were prepared and presented by the Business Manager to the Board of Education and noted the following:

- ◆ Neither the February 28, 2001, treasurer's report nor the report for the second quarter of the 2000-2001 fiscal year included any mention of the need to adjust budgetary estimates for the \$2.8 million difference between the adopted budget and state aid as projected by the New York State Education Department. (See finding entitled "Inadequate Budgetary Controls")
- ◆ The February 28, 2001, treasurer's report did not contain projections of revenues, expenditures, and fund balance through June 30, 2001. The report also did not include information on the financial and budgetary status of the special aid and school lunch funds.
- ◆ Neither the February 28, 2001, treasurer's report nor the report for the second quarter of the 2000-2001 fiscal year indicated that the District had not paid its health insurance premiums since September 2000 and was more than \$1 million in arrears, as of March 21, 2001.
- ◆ At February 28, 2001 there were numerous general fund appropriation accounts that had been over expended, some of which had been over expended since August of 2000. The treasurer's report did not mention the over expended accounts. (See finding entitled "Inadequate Budgetary Controls")

- ◆ The February 28, 2001, treasurer's report contained the bank reconciliation for the payroll account, which listed bank and book balances as being zero when the book balance was actually more than \$1,300 higher than the bank balance. We determined that \$900 of this difference related to overdraft charges dating back to February of 1999 that were not recorded in the books.
- ◆ The February 28, 2001, treasurer's report lists budgeted general fund revenues as being more than \$12,000 less than general fund appropriations. No explanation for this difference was provided. Therefore, the report shows an unbalanced general fund budget.

We also reviewed the financial report for the first quarter of the fiscal year 2000-2001, and noted that it contained essentially the same deficiencies we noted in the second quarterly report.

The District's management can more effectively manage the fiscal affairs of the District when they receive adequate, reliable information regarding the District's finances. The Superintendent and the Board should be informed in a timely manner as to the status of the budgetary accounts and projected financial needs of the District so that they can make well - informed decisions as to how to manage the financial affairs of the District and plan for the future needs of the District.

We encourage the Board and the Superintendent to carefully review the financial reports presented to them by the Business Manager to ensure that they receive complete, accurate and timely information regarding the financial affairs of the District. We urge the Business Manager to exercise care when preparing financial reports to minimize the risk that deficiencies, such as those described above, will occur with respect to financial reports prepared in the future.

On March 14, 2001 the State Education Department's Chief Operating Officer sent to the President of the Board a letter that detailed the deficiencies in the first quarterly report and recommended improvements. We urge the District's management to carefully review this letter and implement corrective action.

### **Inadequate Budgetary Controls**

During the course of our previous examination, we informed the District's management that based on the State Education Department's projected state aid payments to the District, the District may receive approximately \$2.8 million less in state aid than they had estimated in the 2000-2001 budget. Although the District's management has taken some administrative action to restrict spending, as of the completion of our onsite work on March 30, 2001, the budget had not been revised in order to compensate for the general fund deficit at the beginning of the fiscal year or the estimated state aid revenue shortfall. As a result, there is a risk of further deterioration of the District's already precarious financial position.

We also noted that the District's data processing software has a feature that notifies the

individual inputting an encumbrance or expenditure into the system that there is insufficient budgetary provision for that particular transaction. However, District personnel generally issue purchase orders before the encumbrance is placed and, therefore, at the time the encumbrance is placed it may be too late to avoid over expending the budgetary account. The over expenditure of budgetary accounts could also result in a further deterioration of the District's financial condition.

We encourage the Business Manager to carefully review the status of the budget on a frequent basis and in the future advise the Board, in writing, of the need for budgetary modifications in a timely manner. The availability of appropriations should be verified and encumbrances placed prior to the issuance of purchase orders.

**New York State Education Department  
Component of  
The Report of Examination**

**State Aid**

The District received \$17.5 million in State aid for the 1999-2000 school year based in large part on data it collected and reported to the State Education Department (the Department). However, the District does not have adequate systems and controls in place to reasonably ensure valid and reliable data for State aid purposes are obtained, maintained, and fairly disclosed in reports on a timely basis. This is evident by the following audit findings related to errors and exceptions in the data for the Special Education related aids, Educationally Related Support Services aid, Building aid, and others.

- ◆ The District did not report students with disabilities attending private schools for the 1996-1997 through 1998-1999 school years even though the District reported spending over \$540,000 in tuition expenditures for these students attending private schools. As a result, the District did not receive Private Excess Cost aid for these students and had to use other funds to pay for the tuition expense.
- ◆ The District received almost \$2.9 million in Public Excess Cost aid for 588 FTE (full time equivalent) students for the 1999-2000 State aid year. However, the District does not have adequate documentation to support the numbers of students claimed by weighting category and cannot identify the source of the data reported. Similarly, the District does not have adequate documentation to support the 7,416 hours of services that resulted in \$66,709 in Educationally Related Support Services aid for the 1999-2000 State aid year.
- ◆ The District did not file Public Excess High Cost aid claims for 1998-99 and 1999-2000 in a timely manner. As a result, the State aid payments were delayed. A consultant filed the appropriate forms for 1998-99 and the District received almost \$214,000 in aid. At the time of our review, March 30, 2001, the consultant was preparing the necessary forms for 1999-2000.
- ◆ The District did not file with the Department certain aid reports by the due date that resulted in about \$1.1 million in payments for Building aid being delayed until a future period

To address these deficiencies, the District needs to reengineer its systems and controls to ensure it routinely claims all the State aid it is entitled to receive and to ensure reliable and valid data is captured and reported. The District needs to develop written policies and procedures for tracking and reporting State aid, clearly assign responsibilities for claiming State aid, ensure staff are adequately trained, provide better oversight with processes, consider using a checklist to ensure all reports are submitted by the due dates, and ensure there is coordination and communication between the Business Office and program offices.

### **Compliance3Compliance**

The District did not comply with certain requirements related to policies, district officers and appointments, financial accounting and reporting, and student records.

**Policies** – The Education Law requires boards of education to establish policies concerning district operations. The District has a policy manual, but it is incomplete and out-of-date. For example, the manual does not contain policies relating to school lunch, operations and maintenance, occupational safety, toxic substances, energy conservation, and disaster preparedness (other than bomb threats). In addition, the policies for budgeting, accounting, auditing, and purchasing were not complete. As a result, employees may not know what is expected of them and the District may not be able to hold them fully accountable. In addition, because the District has very few written procedures, it may be at substantial risk of not completing critical processes in a timely manner if key employees leave District service.

**District Officers and Appointments** – The Board did not appoint a purchasing agent for the period November 3, 2000 through December 7, 2000 and therefore, no one was legally authorized to commit the District to make a purchase. Similarly, the Board did not appoint an internal claims auditor for the period July 1, 2000 through March 1, 2001 to review all claims. Without an internal claims auditor, the Board is required to review all claims, but did not do so. The Board appointed the business manager as both the treasurer and tax collector. The positions of treasurer and tax collector should be segregated to strengthen the District's internal control structure and to decrease the risk of errors or improprieties occurring and not being timely detected and corrected.

**Financial Accounting and Reporting** – The District did not keep its accounting records current and did not file required reports on a timely basis. For example, the District did not close the accounting records for the year ended June 30, 2000 until November 2000. Similarly, the District did not record subsequent year transactions on the accounting records until November 2000 or more than four months after the school year began. If the accounting records are not kept current, the district cannot know where it stands fiscally. In addition, the untimeliness may have contributed to the District being unable to submit its independent audit report and annual financial report (ST-3) to the Department by the due dates. The independent auditor's report was received by the Department on January 3, 2001 or 94 days late and the ST-3 was received on November 1, 2000 or 61 days late. Also, the original ST-3 as submitted did not include certain items including a \$3 million revenue anticipation note payable and \$4.3 million in receivables.

**Student Records** – Districts are required to maintain permanent academic records for all students and should secure the records since they are confidential. However, we noted the records were stored in an unlocked area that could be accessed by unauthorized personnel. When notified of this condition, District officials took immediate steps to secure the records. However, District officials must remain sensitive to the confidential nature of the records and ensure the records are adequately secured.

#### **APPENDIX 1 APPENDIX**

#### **OFFICE OF THE STATE COMPTROLLER**

## **DIVISION OF MUNICIPAL AFFAIRS**

Patricia Lamb McCarthy, Deputy Comptroller  
Rosemarie V. Rosen, Assistant Deputy Comptroller  
Steven J. Hancox, Assistant Deputy Comptroller

### **LOCAL AREA OFFICE LISTING**

#### **BUFFALO AREA OFFICE**

David H. Slusarz, Chief Examiner  
Office of the State Comptroller  
1050 Ellicott Square Building  
295 Main Street  
Buffalo, New York 14203  
(716) 847-3647 Fax (716) 847-3643  
Allegany, Cattaraugus, Chautauqua, Erie, Genesee, Niagara, Orleans, Wyoming  
E-Mail: [Muni-Bufferalo@osc.state.ny.us](mailto:Muni-Bufferalo@osc.state.ny.us)

#### **SYRACUSE AREA OFFICE**

Debora Wagner, Chief Examiner  
Office of the State Comptroller  
State Office Building, Room 409  
333 E. Washington Street  
Syracuse, New York 13202  
(315) 428-4192 Fax (315) 426-2119  
Herkimer, Jefferson, Lewis, Madison,  
Oneida, Onondaga, Oswego, St. Lawrence  
E-Mail: [Muni-Syracuse@osc.state.ny.us](mailto:Muni-Syracuse@osc.state.ny.us)

#### **GLENS FALLS AREA OFFICE**

Richard H. Dinolfo, Chief Examiner  
Office of the State Comptroller  
One Broad Street Plaza  
Glens Falls, New York 12801  
(518) 793-0057 Fax (518) 793-5797  
Clinton, Essex, Franklin, Fulton,  
Hamilton, Montgomery, Rensselaer,  
Warren, Washington  
E-Mail: [Muni-GlensFalls@osc.state.ny.us](mailto:Muni-GlensFalls@osc.state.ny.us)

#### **HAUPPAUGE AREA OFFICE**

John R. Pollack, Chief Examiner  
Office of the State Comptroller  
NYS Office Bldg. Room 3A10  
Veterans Memorial Highway  
Hauppauge, New York 11788-5533  
(631) 952-6534 Fax (631) 952-6530  
Nassau, Rockland, Suffolk, Westchester  
E-Mail: [Muni-Hauppauge@osc.state.ny.us](mailto:Muni-Hauppauge@osc.state.ny.us)

## LOCAL AREA OFFICE LISTING (Cont'd)

### **ROCHESTER AREA OFFICE**

William W. Campbell, Chief Examiner  
Office of the State Comptroller  
The Powers Building  
16 West Main Street - Suite 522  
Rochester, New York 14614  
(716) 454-2460 Fax (716) 454-3545  
Cayuga, Chemung, Livingston, Monroe,  
Ontario, Schuyler, Seneca, Steuben, Wayne, Yates  
E-Mail: [Muni-Rochester@osc.state.ny.us](mailto:Muni-Rochester@osc.state.ny.us)

### **BINGHAMTON AREA OFFICE**

Patrick Carbone, Chief Examiner  
Office of the State Comptroller  
State Office Bldg. Room 1702  
44 Hawley Street  
Binghamton, New York 13901-4417  
(607) 721-8306 Fax (607) 721-8313  
Broome, Chenango, Cortland, Delaware,  
Otsego, Sullivan, Tioga, Tompkins  
E-Mail: [Muni-Binghamton@osc.state.ny.us](mailto:Muni-Binghamton@osc.state.ny.us)

### **ALBANY AREA OFFICE**

Thomas J. Kelly, Jr., Chief Examiner  
Office of the State Comptroller  
22 Computer Drive West  
Albany, New York 12205  
(518) 438-0093 Fax (518) 438-0367  
Albany, Columbia, Dutchess, Greene, Orange, Putnam, Saratoga, Schenectady, Schoharie, Ulster  
E-Mail: [Muni-Albany@osc.state.ny.us](mailto:Muni-Albany@osc.state.ny.us)