



Corinth Central School District Internal Controls Over Selected Financial Activities

Report of Examination

Period Covered:

July 1, 2004 - October 5, 2005

2006M-103



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State of New York Office of the State Comptroller

Division of Local Government Services and Economic Development

November 2006

Dear School District Officials:

One of the Office of the State Comptroller's top priorities is to identify areas where school districts can improve their operations and provide guidance and services that will assist school district officials in making those improvements. Further objectives are to develop and promote short-term and long-term strategies to enable and encourage school district officials to reduce costs, improve service delivery and to account for and protect their school districts' assets.

The reports issued by this Office are an important component in accomplishing these objectives. These reports are expected to be a resource and are designed to identify current and emerging fiscally related problems and provide recommendations for improvement. The following is our report on the Corinth Central School District — Internal Controls Over Selected Financial Activities.

This audit was conducted pursuant to the State Comptroller's authority as set forth in Article V, Section 1 of the State Constitution and Article 3 of the General Municipal Law. The report contains opportunities for improvement for consideration by school district officials.

If we can be of assistance to you or if you have any questions concerning this report, please feel free to contact the local regional office for your county listed at the back of this report.

Respectfully submitted,

*Office of the State Comptroller
Division of Local Government Services
and Economic Development*



State of New York Office of the State Comptroller

EXECUTIVE SUMMARY

The Corinth Central School District (District) is governed by the Board of Education (Board) which comprises seven elected members. The Board is responsible for the general management and control of the District's financial and educational affairs. The Superintendent of Schools (Superintendent) is the chief executive officer of the District and is responsible, along with other administrative staff, for the day-to-day management of the District under the direction of the Board.

The District received a \$1.15 million Reading First grant. The grant is for a three-year period, which began October 1, 2003 and is designed to improve reading achievement in kindergarten through third grade.

The District's financial statements included machinery and equipment capital assets (e.g., furniture and computers) with a net book value of approximately \$1.1 million at June 30, 2005. Thus, the District's inventory of capital assets represents a significant investment of resources.

Scope and Objectives

The objectives of our audit were to determine if controls over cash disbursements for the Reading First grant and capital assets were appropriately designed and operating effectively for the period from July 1, 2004 to October 5, 2005. Our audit addressed the following questions:

- Has the District established adequate internal controls over cash disbursements for the Reading First grant and are those controls operating effectively?
- Has the District established adequate internal controls over capital assets to protect against loss, waste and misuse, and are those controls operating effectively?

Audit Results

The Board and Superintendent failed to establish adequate internal controls over cash disbursements for the Reading First grant. The District's elementary school principal (principal) who served as the Reading First coordinator was a recipient of the grant money and was allowed to administer the grant with virtually no supervision. We found that as a result of this lack of internal controls, the principal authorized excessive pay and travel expenses for herself and other employees. The result of this action is that fewer funds were available to improve educational services for the children of the District.

We found that the Board did not approve the appointment of the principal as the Reading First coordinator or the reading teacher as the coach, nor did the Board set salaries for these positions. As a result, we cannot determine the propriety of over \$36,000 in salaries paid to the principal and the coach. In addition to travel reimbursements and other money they received under the grant, the principal and coach were each paid \$2,500 stipends that they were not entitled to for administering the grant. Finally, the principal and coach billed the school for \$1,244 in excess travel expenses incurred while attending the national Reading First conventions in July of 2004 and 2005. District officials also informed us the normal practice is not to provide compensation for teachers who wish to attend training during the summer months; however, the District paid the coach and five other teachers a total of over \$3,000 to attend a conference in July 2005 related to the Reading First grant.

The Board has not adopted a capital asset policy. The District's capital asset records are incomplete, limiting the District's ability to keep track of capital assets. The District performed a partial physical inventory in 2003; however, no capital assets purchased after January 1, 2003 have been added to this inventory and no subsequent inventories have been conducted. The District failed to create property record cards to identify assets or to label assets with press-numbered inventory tags.

Comments of District Officials

The results of our audit and recommendations have been discussed with District officials and their comments, which appear in Appendix A, have been considered in preparing this report. District officials generally agreed with our recommendations and indicated they planned to initiate corrective action. Appendix B includes our comments on issues raised in the District's response letter.

Introduction

Background

The Corinth Central School District (District) is located in the Town of Corinth, Saratoga County. The District is governed by the Board of Education (Board) which comprises seven elected members. The Board is responsible for the general management and control of the District's financial and educational affairs. The Superintendent of Schools (Superintendent) is the chief executive officer of the District and is responsible, along with other administrative staff, for the day-to-day management of the District under the direction of the Board.

There are two schools in operation within the District, with approximately 1,300 students and 250 employees. The District's expenditures for the 2004-05 fiscal year were \$17.86 million, and were funded primarily by real property taxes and State and Federal aid.

The Board has overall responsibility for the operations of the District. The Superintendent and administrative staff have the responsibility for managing and overseeing the daily operations of the District. The responsibility for the District's finances and accounting records rests with the Business Administrator. The District uses a computer software package known as Info-Matic to process its financial transactions. The Board is responsible for ensuring that an effective system of internal controls over the District's operations exists.

The District received a \$1.15 million Reading First grant. The grant is for a three-year period, which began October 1, 2003 and is designed to improve reading achievement in kindergarten through third grade. Improved reading achievement is accomplished through scientifically based reading research to improve instruction. Another tool implemented by the grant is the use of assessments to inform and modify teaching methods. The grant requires a coach to oversee the implementation of the reading techniques and required training sessions. The Reading First coordinator position, filled by the elementary school principal, is an optional position. Attendance at certain training sessions and conferences is required for the teachers, the coach, and the coordinator (if the position is filled) and although attendance at the national reading conference is not required, it is strongly encouraged. The grant allows stipends to be paid for Reading First work completed outside of regular business hours only if an individual's contract states he or she must be compensated.

The District's financial statements included machinery and equipment capital assets (e.g., furniture and computers) with a net book value of approximately \$1.1 million at June 30, 2005. Thus, the District's inventory of capital assets represents a significant investment of resources.

Objectives

The objectives of our audit were to determine if controls over cash disbursements for the Reading First grant and capital assets were appropriately designed and operating effectively. Our audit addressed the following questions:

- Has the district established adequate internal controls over cash disbursements for the Reading First grant and are those controls operating effectively?
- Has the District established adequate internal controls over capital assets to protect against loss, waste and misuse, and are those controls operating effectively?

Scope and Methodology

Our overall goal was to assess the adequacy of the internal controls put in place by officials to safeguard District assets. To accomplish this, we performed an initial assessment of the internal controls so that we could design our audit to focus on those areas most at risk. Our initial assessment included evaluations of the following areas: cash receipts and disbursements, purchasing, payroll and personal services and capital assets. Based on that evaluation, we determined that controls appeared to be adequate and limited risk existed in most of the financial areas we reviewed. We did determine that risk existed in the areas of cash disbursements for the Reading First grant and capital assets. Therefore, we examined the internal controls over the District's cash disbursements for the Reading First grant and capital assets for the period July 1, 2004 to October 5, 2005.

We conducted our audit in accordance with generally accepted government auditing standards (GAGAS). More information on such standards and the methodology used in performing this audit are included in Appendix C of this report.

Comments of District Officials and Corrective Action

The results of our audit and recommendations have been discussed with District officials and their comments, which appear in Appendix A, have been considered in preparing this report. District officials generally agreed with our recommendations and indicated they planned to initiate corrective action. Appendix B includes our comments on issues raised in the District's response letter.

The Board has the responsibility to initiate corrective action. Pursuant to Section 35 of the General Municipal Law, Section 2116-a (3)(c) of the Education Law and Section 170.12 of the Regulations of the Commissioner of Education, the Board must approve a corrective action plan that addresses the findings in this report, forward the plan to our office within 90 days, forward a copy of the plan to the Commissioner of Education and make the plan available for public review in the District Clerk's office. For guidance in preparing the plan of action, the Board should refer to applicable sections in the publication issued by the Office of the State Comptroller entitled *Local Government Management Guide*.

Reading First Grant Disbursements

An effective system of internal controls consists of policies, practices and procedures that allow District officials to provide reasonable assurance that they are safeguarding and properly accounting for public resources. It also consists of effective management oversight of those charged with handling public moneys, and an appropriate segregation of financial duties so that no single person controls all phases of a transaction. Effective internal controls should also ensure that officials will properly authorize and record all transactions, prepare financial reports, observe applicable laws, rules and regulations, and take corrective action when necessary.

The Board and the Superintendent failed to establish adequate internal controls over cash disbursements from the Reading First grant. The District's elementary school principal (principal) served as the Reading First coordinator and was a recipient of the grant money. In her capacity as principal, she initiated many of the grant expenditures and participated in travel under the grant while at the same time, serving as Reading First coordinator, she approved all of the expenses.

This handling of the Reading First grant is in contrast with the handling of other grants received by the District, which are administered by the Director for Student Services. Her dual roles of coordinator and principal put her in the position of authorizing and approving her own grant-related expenses. Essentially, the principal administered the grant with minimal, if any, supervision. We found that as a result of this lack of internal controls, the principal authorized excessive pay and travel expenses for herself and other employees. As a result, fewer funds were available to improve educational services for the children of the District.

Employee Travel Expenses

Although the Board had established a travel policy that addresses reimbursement rates, it does not address the specific circumstances and types of travel that may be incurred by District officers and employees. The policy requires employees to file a request to travel, with documentation of the estimated expenses. This request to travel must be approved by the employee's supervisor and the Superintendent.

In July of 2004 and 2005, the principal and Reading First coach (coach) attended national Reading First conventions in Minneapolis and New Orleans costing \$2,147 and \$2,424, respectively. In each instance,

their flights departed from Albany on a Saturday for attendance at conferences that began on Tuesday. District officials told us the early flights allowed District personnel to take advantage of lower airline rates; by flying on Saturday rather than Monday. Officials also told us the District saved money, although we were not provided with any documentation to substantiate this assertion. The Superintendent told us that at the time he approved the travel he was not aware that their flights arrived three days before the conventions started. We found that the additional travel time resulted in increased costs to the District.

We determined that the flight to New Orleans on Saturday, July 23, 2005 cost \$66 (\$33 each) less than a similar flight on Monday July 25, 2005. Although the Saturday flight saved the District \$66 on airfare, the two employees spent, and the school reimbursed them, \$631 for meals and lodging on Saturday and Sunday. The actual airfare rates for the 2004 trip were not readily available; however, a similar differential between the cost of the Saturday and Monday tickets using 2005 rates would have saved \$284 (\$142 each) while the reimbursement for meals and lodging on Saturday and Sunday totaled \$613. In summary, the estimated savings on airfare of \$350 were more than offset by the additional travel expenses incurred of \$1,244, due to travel to the conferences two days earlier than necessary. The early travel actually cost the District \$894. If the principal and the reading coach wanted to extend their trips to New Orleans and Minneapolis for personal reasons, they should have paid the additional expense themselves and not used money intended to provide educational services to children.

Payroll Issues

The Board is responsible for approving all appointments and setting salaries for all positions. Any additional payments over such established salaries should also be authorized and approved by the Board. For conference attendance, the Board should establish a written policy indicating the allowable circumstances and the rate at which teachers will be paid for attending such conferences. Once established the policy should be consistently applied in all situations.

Appointments and Salaries — The District's application to the State Education Department (SED) for the Reading First grant stated that the principal would serve as the Reading First coordinator. However, we found no indication in the minutes of the Board meetings that the Board had approved the appointment of the principal as coordinator or the reading teacher as coach, nor did the Board establish salaries for these positions. The principal was paid \$9,500 for the 2004-2005 grant year (October through September) and \$8,000 for the 2005-

2006 grant year above and beyond her principal's salary for serving as the Reading First coordinator. There is no specific mention of compensation resulting from grants in the contract for the principal. Because the grant only allows additional payments if they are required by employment contracts, we believe these payments were inappropriate.

The coach received a total of \$15,614 for the 2004-2005 grant year and \$16,054 for the 2005-2006 grant year for work done on the Reading First program over the summer. These payments to the coach were based on the instructor rates of \$53.32 or \$54.42 per hour (approximately, 293 hours for 2004-05 grant year and 295 hours for the 2005-06 grant year). The coach submitted time sheets to verify her hours worked on the grant. We note that the contract with the District requires that teachers be paid an additional amount for work done outside normal school hours. It specifies that teachers be paid \$21 per hour for curriculum work and 1/200 of their annual salary (for a 7.25 hour day) for instructing staff. If the coach's work in the summers was classified as curriculum work then she should have been paid \$21 an hour for a total of \$12,348, or \$19,320 less than she actually received.

Training Stipend — Under the terms of the Reading First grant, teachers were required to complete an on-line training program. The District paid \$2,500 stipends to teachers who completed this training on their own time, \$1,300 stipends to teachers who completed half of the training on their own time and half during regular school hours and a \$200 stipend to teachers who completed the entire training during the regular school day. The principal and coach were each paid \$2,500 for completing the training in addition to the previously noted salaries they received under the grant. Reading First specialists from the SED informed us that this stipend was intended for teachers only and that the principal and coach were not entitled to this payment. However, since the principal was able to approve the payments, they were not questioned.

Conferences — While we were informed the District's normal practice is not to pay teachers for attending training in the summer, the District did pay for the coach and five other teachers to attend the July 2005 Reading First conference in Buffalo. The five teachers were paid for 14.5 hours at the curriculum rate of \$21 per hour (\$305). Although not attending the conference as an instructor, the coach was paid for 29 hours at the instructor rate of \$54.42 per hour (\$1,578).

Recommendations

1. The Board should seek recovery of the excess payments to the principal and the reading coach.
2. The Board should approve all appointments to positions established under grants as well as any applicable pay rates that result from the appointments. A grant administrator should be someone other than the individual(s) receiving extra pay, benefits or reimbursements for services provided in the performance of the grant.
3. The District should ensure that employee travel expenses are kept to the minimum amount necessary and unnecessary costs are avoided.
4. The Board should establish written policies to address when and at what rate teachers are eligible to be paid for attending training.

Capital Assets

District officials must ensure that capital assets are protected from loss, that their value is maintained, and that they are used effectively. Capital assets are those that have a useful life of more than one year and include such things as land, buildings, furnishing, vehicles and electronic equipment such as computers. The District reported over \$3.6 million in machinery and equipment offset by accumulated depreciation of over \$2.5 million on its 2005 annual report. Without complete and accurate inventory records, the District could not verify the reported totals. The District should have a capital asset policy that sets forth the duties, records and procedures required to achieve adequate internal controls. Maintaining an inventory of capital assets, including detailed asset records, helps to safeguard assets; helps to determine the adequacy of insurance protection; provides a means of planning for future replacement; and fixes responsibility for the care and safeguarding of equipment and property. An annual physical inventory count of capital assets is an important control for monitoring the accuracy of the asset records and determining the existence and condition of the assets.

Ideally, one person (the property control manager) should have overall responsibility for tracking capital assets, and for the accuracy of the asset records. The detailed records maintained by the property control manager must be complete, accurate and up-to-date. Each piece of moveable property should have a record that includes a description of the item including the make, model and serial number; the District's assigned identification number; the date, amount, vendor and claim number for the purchase; the department having custody and the location; and the source of funds used to purchase the item.

We found that internal controls over capital assets were severely lacking. The deficiencies we noted include the following:

- The Board had not adopted a capital asset policy.
- The District's inventory records are incomplete, which limits the District's ability to keep track of its capital assets. For example, although the District performed a partial physical inventory in 2003, no capital assets purchased after January 1, 2003 were later included on this inventory. No further inventories were conducted.

- The District failed to create individual property records or to label assets with press numbered inventory tags to identify assets as belonging to the District.
- We tested 63 items, 23 laptop computers and 40 handheld computers, with a cost of \$11,120, to determine whether the items were recorded in the District's inventory records. We found that none of them were listed on the inventory.

The result of the District not having a capital assets policy, combined with the inadequate inventory records, places the capital assets of the District at an increased risk of being lost, stolen, or abused.

Recommendations

5. District officials should develop a comprehensive capital asset policy. This policy should communicate management's objectives and set forth the duties, records and procedures required to achieve these objectives. This policy should also establish the minimum value of assets to be tracked for departmental inventory control and establish thresholds for financial reporting purposes.
6. Each piece of property meeting the criteria for inclusion in the asset inventory should be identified when it is received by the District through the use of an asset tag and an individual property record should be created. The asset should also be included on the inventory listing of capital assets as soon as possible.
7. District officials should require that a physical inventory count of assets be conducted at least annually. Any discrepancies noted between actual and recorded inventory items should be fully investigated.

APPENDIX A

RESPONSE FROM DISTRICT OFFICIALS

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

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November 1, 2006

Office of the State Comptroller
Glens Falls Regional Office
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Glens Falls, NY 12801

To Whom It May Concern:

This correspondence is the response of the Corinth Central School District to the draft report prepared by your staff. It specifically addresses the findings relative to capital assets and expenditures within the Reading First Grant.

The most important statement in this report is buried in the third paragraph of Appendix B, "Audit Methodology and Standards." The author of this report writes, "Based on that evaluation we determined that controls appeared to be adequate and limited risk existed in most of the financial areas we reviewed." It is good to know that Corinth meets your standard! The district requests that this statement be moved to the front of the report.

See
Note 1
Page 19

Management of Capital Assets was cited as an area needing more control. The auditor made three (3) recommendations, all of which have been implemented. It should be noted that a policy review began prior to your audit to ensure that all district policies are current and able to legally and sensibly guide district practices and procedures. Your comments endorse this process.

Specific to this report, the auditors were informed that the IT person responsible for the inventory was new. At the time of this audit he had begun the process requested in these recommendations. In our "Exit Discussion" of this audit, the state representatives suggested that individual items -- calculators, staplers, palm pilots, etc. -- that are purchased in bulk quantities when the total order exceeds \$1,000 are to be labeled as a capital asset. The 46 items examined in this audit were all one purchase. Such a narrow sampling is not a representative sampling to assess our purchasing practices. The suggestion to label such purchases as Capital Assets is appreciated, and we will do so when it is appropriate.

See
Note 2
Page 19

The final aspect of this review of our capital assets was inventory control. The auditors sought labels on each item (palm pilots) to identify them as property of Corinth Central School. According to the auditors in our exit discussion, the purpose of this is for insurance coverage in the event of theft. When asked, the auditors acknowledged that we have the requisite paperwork to process an insurance claim.

See
Note 3
Page 19

Reading First expenditures were scrutinized in this audit and recommendations made. Revision of Board of Education policies are at the heart of these suggestions. These policies must ensure that adequate controls exist to monitor cash disbursements. The current review of all district policies will address this.

The Auditor admonished the district for allowing an existing staff member to receive additional remuneration to administer this grant. The guidelines of the grant called for a person to administer the grant and also required a full-time reading coach. The Board of Education believed the significant investment of time beyond the school day warranted a stipend for the person administering the grant. This appointment was approved in the original grant.

See
Note 4
Page 19

The report also disapproved of this appointment in that it allowed the grant administrator to approve expenditures. The auditor stated in our "Exit Discussion" that there was "...no supervisory approval, only the Superintendent's." The Superintendent is the supervisor and his signature was required for all approvals.

See
Note 5
Page 19

The audit criticized the payment of a trainer for the summer curriculum work with the teachers, citing contractual language stating that summer curriculum work is paid at a rate of \$21/hour. A closer reading of the contract would reveal that teachers who act as the trainers are paid at a higher per diem rate based on his or her salary.

See
Note 6
Page 19

The State Education Department audited our grant – both the operation and the expenditures – after its initial year of implementation and found NO areas of deficiencies. Corinth Elementary School was recognized by SED for the significant improvement of their reading scores. Much of this growth is the result of the focus provided by reading first. Yet the auditors overlooked this and chastised the district when stating "there were less funds available for students."

See
Note 7
Page 20

The audit process is valuable to our district in that it reminds us that we are stewards of the public funds made available to operate our schools. This opportunity to respond formally to the audit report is appreciated. It keeps this process public and, in the words of one of the auditors, it addresses the "concern that a response might mislead the public."

Sincerely,


Dr. Daniel Starr, Superintendent

cc: Board of Education

APPENDIX B

OSC COMMENTS TO RESPONSE FROM DISTRICT OFFICIALS

Note 1

We have amended our report to include similar wording in the Introduction section of the report under Scope and Methodology.

Note 2

Our audit sample included 63 items that were acquired through four separate purchase transactions, not 46 items acquired as one purchase as indicated in the District's response. We found that all of the 63 items tested were not listed on the District's inventory records and feel our sample size was adequate for the procedures being reviewed. Although we suggested that palm pilots be labeled as District assets because of their value, we did not recommend that items such as staplers be so labeled.

Note 3

While we acknowledge the District had adequate documentation on hand should it need to file an insurance claim, we did not state the purpose for labeling assets was for insurance coverage purposes in the event of a theft. The labeling of District assets is done to readily identify an asset as belonging to the District and likely help prevent the theft of District assets.

Note 4

Our report states there was no indication in the minutes of the Board meetings that the Board approved the appointments of the principal as the grant coordinator or the reading teacher as the coach, nor did the Board establish the amounts to be paid for their work associated with the grant. We are not admonishing the District for allowing staff members to serve in these capacities related to the grant; we are disclosing the Board's failure to take formal action to appoint them as the coordinator and coach, and establish the salaries for such positions.

Note 5

Our discussion and commentary in the report regarding the Superintendent's supervisory approval relates to approving employee travel requests, not approving claims for payment.

Note 6

We concur, and noted in the report, that teachers would be paid at a higher rate when instructing staff. However, during our review of the timesheets submitted by the teacher acting as the coach for the grant, we did not note any indication of work performed as a trainer.

Note 7

We were aware the State Education Department audited the District's grant. Regardless, we found that excessive pay for staff members involved with the grant and excessive travel expenses had occurred. As such, less funds were available for the direct educational services for the District's students.

APPENDIX C

AUDIT METHODOLOGY AND STANDARDS

Our overall goal was to assess the adequacy of the internal controls put in place by officials to safeguard District assets. To accomplish this, we performed an initial assessment of the internal controls so that we could design our audit to focus on those areas most at risk. Our initial assessment included evaluations of the following areas: cash receipts and disbursements, purchasing, payroll and personal services, and capital assets and consumable inventories.

During the initial assessment, we interviewed appropriate District officials, performed limited tests of transactions and reviewed pertinent documents such as District policies and procedures manuals, Board of Education minutes and financial records and reports. In addition, we obtained information directly from the computerized financial databases and then analyzed it electronically using computer-assisted techniques. This approach provided us with additional information about the District's financial transactions as recorded in its databases. Further, we reviewed the District's internal controls and procedures over the computerized financial databases to help ensure that the information produced by such systems was reliable.

After reviewing the information gathered during our initial assessment, we determined where weaknesses existed, and evaluated those weaknesses for the risk of potential fraud, theft and/or professional misconduct. Based on that evaluation we determined that controls appeared to be adequate and limited risk existed in most of the financial areas we reviewed. We then decided upon the reported objectives and scope by selecting for audit those areas most at risk. We selected internal controls in place over cash disbursements for the Reading First grant monies and internal controls over capital assets for further audit testing.

Our tests included the following:

- We reviewed the District's travel policy.
- We reviewed 20 claims related to travel under the Reading First grant during our audit period and determined if expenses were legitimate, reasonable, proper and supported; expenses were in compliance with District policy; and conference travel was authorized in advance.
- We reviewed employment contracts for the coach of the Reading First grant and principal who served as the Reading First coordinator to determine if they addressed the hours to be worked and the rates paid.
- We sampled payments paid to the coordinator, coach and five teachers under the Reading First grant to determine if payments were only made for actual services rendered.
- We determined if the District had a capital asset policy.

- We reviewed the District's capital asset records as of October 5, 2005 to determine if they were complete and up-to-date.
- We tested a sample of purchases of laptop and handheld computers to determine if the computers were added to the inventory records.

We conducted our audit in accordance with generally accepted government auditing standards (GAGAS). Such standards require that we plan and conduct our audit to adequately assess those district operations within our audit scope. Further, those standards require that we understand the district's management controls and those laws, rules and regulations that are relevant to the district's operations included in our scope. An audit includes examining, on a test basis, evidence supporting transactions recorded in accounting and operating records and applying such other auditing procedures, as we consider necessary in the circumstances. We believe that our audit provides a reasonable basis for the findings, conclusions and recommendations contained in this report.

APPENDIX D

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