



# Clinton-Essex-Warren- Washington Board of Cooperative Educational Services

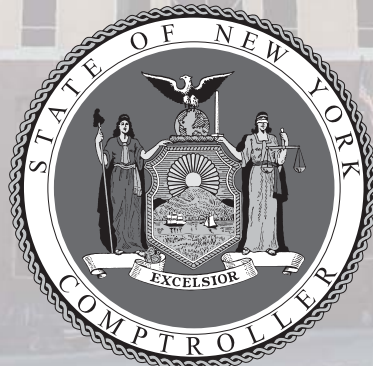
## Internal Controls Over Selected Financial Activities

Report of Examination

Period Covered:

July 1, 2007 — October 31, 2008

2009M-58



Thomas P. DiNapoli

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# State of New York Office of the State Comptroller

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## **Division of Local Government and School Accountability**

September 2009

Dear Board of Cooperative Educational Services (BOCES) Officials:

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

Following is a report of our audit of the Clinton-Essex-Warren-Washington Board of Cooperative Educational Services, entitled Internal Controls Over Selected Financial Activities. This audit was conducted pursuant to Article V, Section 1 of the State Constitution and the State Comptroller's authority as set forth in Article 3 of the General Municipal Law.

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

Respectfully submitted,

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



# State of New York Office of the State Comptroller

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## EXECUTIVE SUMMARY

The Clinton-Essex-Warren-Washington Board of Cooperative Educational Services (BOCES) is a governmental entity covering the area of 17 component school districts.<sup>1</sup> BOCES is governed by a 15 member Board of Cooperative Educational Services (Board) elected by the boards of education of the component districts. The Board is responsible for the general management and control of BOCES' financial and educational affairs. The District Superintendent is the executive officer of BOCES and is responsible, along with other administrative staff, for the day-to-day management of BOCES.

### **Scope and Objective**

The objective of our audit was to determine whether BOCES had effective internal controls over selected financial activities for the period July 1, 2007 to October 31, 2008. Scope periods were expanded to begin on July 1, 2001 for our review of BOCES' reserve funds and July 1, 2006 for our review of the internal audit function. Our audit addressed the following related questions:

- Has BOCES properly established and maintained its reserve funds in accordance with statutory requirements?
- Has BOCES' internal audit function been performed in accordance with Education Law and established contract requirements?
- Are internal controls over the payroll process appropriately designed and operating effectively to adequately safeguard BOCES assets?
- Are internal controls over cash receipts and disbursements appropriately designed and operating effectively to adequately safeguard BOCES assets?

### **Audit Results**

We found instances where the BOCES had not established essential internal controls, and that certain existing controls were not properly implemented and operating effectively. As a result, the BOCES is vulnerable to the possibility of errors and/or irregularities occurring and not being detected in a timely manner.

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<sup>1</sup> Component school districts (BOCES members) provide most of the funding for BOCES facilities and services. BOCES also serves "participating" school districts which elect to participate in one or more selected BOCES programs and are billed accordingly.

The BOCES did not maintain the employee benefit accrued liability reserve (EBALR) or unemployment insurance reserve in accordance with statutory requirements. The chief fiscal officer did not furnish financial reports to the Board when required, and reserve funds totaling more than \$1.15 million have been used for purposes that were not statutorily authorized. In addition, as of June 30, 2008, the EBALR had \$329,487 more than necessary to meet its obligations for compensated absences and the unemployment insurance reserve had enough money to cover unemployment claim expenditures for more than 26 fiscal years. As a result, the component districts, which are significantly funded by taxpayers, have paid more than necessary to fund BOCES operations.

The internal audit function was not performed in accordance with the Education Law and contract requirements for the 2006-07 and 2007-08 fiscal years. Despite this, the Board reappointed and entered into another contract with the same individual for the 2008-09 fiscal year. As a result, BOCES officials have been deprived of the opportunity to ascertain if the internal controls over financial operations are adequate.

Internal controls over the payroll process were not appropriately designed and operating effectively. BOCES officials did not have comprehensive written policies and procedures to provide guidance and internal controls over payroll processing and leave time accruals. Consequently, BOCES officials did not adequately segregate duties, and compensating controls were neither in place, nor operating effectively. As a result, the salaries for three employees were miscalculated, resulting in the employees being underpaid \$5,514 for the 2007-08 fiscal year, and would have resulted in the employees being underpaid an additional \$6,647 during the 2008-09 fiscal year if we had not notified BOCES officials of the miscalculations. In addition, the leave time granted to employees did not coincide with the terms of their employment contracts.

Internal controls over cash receipts and disbursements were not appropriately designed or operating effectively. Cash receipts at the departmental level were not collected in accordance with the Board's established policy and procedures. Cash receipts that were remitted to the Business Office were not supported by appropriate documentation for all six of the departments that we reviewed, and cash handling and recordkeeping duties were not adequately segregated in three of the six departments. We also noted cash receipts totaling \$6,155 were not deposited until 12 days or more from the date the funds were received, and that the payroll clerk and the accountant affixed the Treasurer's signature to payroll and accounts payable checks without direct oversight or review by the Treasurer. As a result, there is little or no assurance that moneys collected are properly accounted for, and not complete assurance that disbursements are only made for legitimate purposes.

### **Comments of BOCES Officials**

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

# Introduction

## Background

The Clinton-Essex-Warren-Washington Board of Cooperative Educational Services (BOCES) is a governmental entity covering the area of 17 component school districts.<sup>2</sup> BOCES is governed by a 15 member Board of Cooperative Educational Services (Board) elected by the boards of education of the component districts. The Board is responsible for the general management and control of BOCES' financial and educational affairs. The District Superintendent (Superintendent) is the executive officer of BOCES and is responsible, along with other administrative staff, for the day-to-day management of BOCES. By law, the Superintendent is an employee of both the appointing BOCES and the New York State Education Department. As such, the Superintendent also serves as a representative for the New York State Commissioner of Education.

The 17 component school districts combined educate approximately 15,200 students. BOCES employs approximately 440 staff members and has two main locations: the Plattsburgh Main Campus located in the Town of Plattsburgh in Clinton County, and the Mineville Campus located in the Town of Moriah in Essex County. BOCES staff members work at BOCES' campuses and in component district school buildings. BOCES' budgeted expenditures for the 2008-09 fiscal year are \$35.3 million, which are funded primarily by charges to school districts for services and Federal and State aid.

BOCES maintains several reserve funds, including an employee benefit accrued liability reserve and an unemployment insurance reserve, which totaled approximately \$3.3 million as of June 30, 2008. BOCES entered into a contract with a local accounting firm to perform the internal audit function, and it has renewed the contract annually since the 2006-07 fiscal year. During the 2007-08 fiscal year, BOCES' gross payroll totaled approximately \$16.9 million, and the six departments we reviewed remitted cash receipts totaling approximately \$330,000 to the Business Office for deposit.

## Objective

The objective of our audit was to determine if BOCES had established effective internal controls over selected financial activities. Our audit addressed the following related questions:

- Has BOCES properly established and maintained its reserve funds in accordance with statutory requirements?

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<sup>2</sup> Component school districts (BOCES members) provide most of the funding for BOCES facilities and services. BOCES also serves "participating" school districts which elect to participate in one or more selected BOCES programs and are billed accordingly.

- Has BOCES' internal audit function been performed in accordance with Education Law and established contract requirements?
- Are internal controls over the payroll process appropriately designed and operating effectively to adequately safeguard BOCES assets?
- Are internal controls over cash receipts and disbursements appropriately designed and operating effectively to adequately safeguard BOCES assets?

**Scope and Methodology**

We examined the BOCES' control environment and internal controls over reserve funds, the internal audit function, payroll, and cash receipts and disbursements for the period July 1, 2007 to October 31, 2008. Scope periods were expanded to begin on July 1, 2001 for our review of the BOCES' reserve funds and July 1, 2006 for our review of the internal audit function.

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 is included in Appendix C of this report.

**Comments of BOCES Officials and Corrective Action**

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

The Board has the responsibility to initiate corrective action. Pursuant to Section 35 of the GML, Section 2116-a (3)(c) of the Education Law, and Section 170.12 of the Regulations of the Commissioner of Education, a written corrective action plan (CAP) that addresses the findings and recommendations in this report must be prepared and provided to our office within 90 days, with a copy forwarded to the Commissioner of Education. To the extent practicable, implementation of the CAP must begin by the end of the next fiscal year. For more information on preparing and filing your CAP, please refer to our brochure, *Responding to an OSC Audit Report*, which you received with the draft audit report. The Board should make the CAP available for public review in the BOCES Clerk's office.

## Reserve Funds

Reserve funds are created under various laws and are used to finance the cost of a variety of objects or purposes. The legal statutes under which the reserves are established (or sometimes mandated) determine how the reserves may be funded, expended and discontinued. It is the responsibility of the Board to continually monitor the operation and condition of all reserves to ensure that they are maintained in accordance with statutory requirements and in the best interest of the component districts.

BOCES did not maintain the employee benefit accrued liability reserve (EBALR) or unemployment insurance reserve in accordance with statutory requirements. The chief fiscal officer did not furnish financial reports to the Board when required, and moneys from both reserves were used for purposes that were not statutorily authorized. We also found that, as of June 30, 2008, both reserves were funded in excess of the amounts necessary to meet obligations. As a result, the component districts, which are significantly funded by taxpayers, have paid more than necessary to fund BOCES operations.

### **Employee Benefit Accrued Liability Reserve**

Pursuant to the General Municipal Law (GML), the Board may, by resolution, establish an employee benefit accrued liability reserve (EBALR). Moneys from this reserve may be used to make cash payments for the value of accrued benefits<sup>3</sup> (compensated absences) due to employees upon separation. Should BOCES officials determine that the reserve is no longer needed, moneys in the reserve may be transferred to certain other reserve funds authorized by law, but only to the extent that the moneys transferred exceed all liabilities incurred or accrued against the reserve, as certified by the fiscal and legal officers of BOCES. The chief fiscal officer is required to furnish a detailed report of the operation and condition of the reserve to the Board within sixty days of the end of each fiscal year.

The Board established an EBALR, by resolution, in 2001. However, the resolution did not include a detailed description as to the intended purpose of the reserve, and the chief fiscal officer has never furnished a detailed report of the operation and condition of the reserve to the Board. As a result, we reviewed payments from the reserve since it was established to determine if they were statutorily authorized. We found that the majority of the payments were correctly used to pay employees for the monetary value of accrued but unused leave time upon separation. However, we also found that moneys from

<sup>3</sup> Unused sick leave, holiday leave, vacation time, time allowances granted in lieu of overtime and any other form of payment for accrued leave time

the reserve were expended for purposes that were not statutorily authorized. For instance, \$444,000<sup>4</sup> that was transferred to subsidize budget shortfalls in retiree health insurance appropriations, and \$702,000<sup>5</sup> that was transferred to increase budgetary appropriations to cover increases in employee salaries resulting from contract negotiations.

We also determined that BOCES officials put more money than necessary into this reserve. As of June 30, 2008, the reserve had a balance of \$2,966,420. However, the 2007-08 audited financial statements showed that the long term liability for compensated absences was only \$2,636,933. Consequently, the reserve had \$329,487 more than necessary to meet obligations. Currently there are legal restrictions<sup>6</sup> on how BOCES officials can use this money. If the additional \$329,487 is not needed, BOCES officials can transfer the money to other reserve funds, as authorized by law, to be used for the benefit of the taxpayers of the component districts.

The Board's lack of oversight has resulted in reserve moneys being used for purposes that were not statutorily authorized and the transfer of moneys to the reserve in excess of the amounts necessary to meet obligations. As a result, the component districts, which are significantly funded by taxpayers, have paid more than necessary to fund BOCES operations.

## **Unemployment Insurance Reserve**

Pursuant to the GML, the Board may, by resolution, establish an unemployment insurance reserve. Moneys from this reserve may be used to reimburse the State Unemployment Insurance Fund for payments made to claimants where BOCES officials have elected to use the benefit reimbursement method (rather than the tax contribution method). If, at the end of any fiscal year, the moneys in the fund exceed pending claims due to the State Unemployment Insurance Fund, plus any additional pending claims, the Board may, within 60 days of the close of the fiscal year, transfer excess amounts to certain other reserve funds authorized by law or apply the excess to the budget appropriation for the next succeeding fiscal year.

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<sup>4</sup> Transfers of \$75,000 during 2005-06, \$90,000 during 2006-07, and \$279,000 during 2007-08.

<sup>5</sup> Transfers of \$165,600 during 2006-07, \$268,200 during 2007-08, and \$268,200 during 2008-09. The transfer of \$165,600 during 2006-07 was subsequently transferred back to the reserve fund at year-end.

<sup>6</sup> Generally, the BOCES requires legislative approval to remove these funds from the reserve to return them to the general fund in order to use them for other purposes. If such approval were to be provided, these funds should be used in a manner that benefits the taxpayers. Such uses include, but are not limited to, paying off debt, financing one-time expenses, reducing component district property taxes, or for other post-employment benefits, if the State Legislature establishes a mechanism to do so.

BOCES officials were unable to provide documentation supporting the establishment of the reserve by Board resolution.<sup>7</sup> As a result, we reviewed payments from the reserve over the last seven fiscal years to determine if they were statutorily authorized. We found that the majority of the payments were correctly used for unemployment claims. However, we determined that BOCES officials made payments totaling \$13,950 to a consultant firm for unemployment cost control services that were not statutorily authorized to be paid from this reserve.

We also found that BOCES officials have not adopted a financing plan to establish how the reserve will be funded or used. Without such a plan, it was not apparent why, as of June 30, 2008, the reserve had a balance of \$348,411. Unemployment claims have averaged only \$13,000 per year over the last six completed fiscal years. Based on this average, the reserve fund has enough money to cover unemployment claims for more than 26 fiscal years. Subsequent to our fieldwork, BOCES officials indicated that current unemployment claims will likely exceed the \$13,000 annual average we calculated. However, the balance in the reserve will still be sufficient to fund multiple years of unemployment claims.

## **Recommendations**

1. The chief fiscal officer should furnish a detailed report of the operation and condition of the EBALR to the Board within sixty days of the end of the each fiscal year.
2. BOCES officials should ensure that payments from the EBALR are made only for statutorily authorized purposes.
3. The Board and BOCES officials should analyze the balance in the EBALR and transfer funds in excess of the amount necessary to satisfy genuine EBALR liabilities (incurred or accrued) to other reserves authorized by law. Alternatively, if State Policymakers enact legislation that would allow BOCES to use excess EBALR funds for other purposes, they should be used in a manner that benefits the taxpayers of the component districts.
4. The Board should pass a resolution to formally establish the unemployment insurance reserve and establish a plan for the funding and use of the reserve.
5. BOCES officials should ensure payments from the unemployment insurance reserve are made only for statutorily authorized purposes.

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<sup>7</sup> BOCES officials could only verify from computerized financial records that the unemployment insurance reserve was in operation prior to the 1996-97 fiscal year.

## Internal Audit Function

Education Law requires BOCES to have an internal audit function that includes, at a minimum, the development of a risk assessment of operations. The risk assessment should include, but not be limited to, a review of financial policies, procedures and practices, an annual review and update of such risk assessment, and an annual testing and evaluation of one or more areas of internal controls taking into account risk, control weaknesses, size and complexity of operations. The risk assessment should also include the preparation of reports (at least annually or more frequently as the Board may direct), which analyze significant risk assessment findings, identify recommendations for strengthening controls and reducing risk, and specify timeframes for implementing recommendations.

The Board did not ensure that the internal audit function was performed in accordance with Education Law and contract requirements. On April 28, 2006, BOCES officials sent out requests for proposals (RFPs) for internal auditing services for the 2006-07 fiscal year to several accounting firms throughout New York State. The RFPs contained a scope of services section that included performance requirements in addition to those required by Education Law. Only two proposals were received. On June 15, 2006, the Board accepted the lower dollar proposal, which was from an individual from a local accounting firm, and appointed this individual to perform the internal audit function for the 2006-07 fiscal year.

However, the internal audit function was not performed in accordance with Education Law and contract requirements. The Business Manager informed us that the internal auditor's review was performed in three days and consisted of a review of the BOCES' policy manual. There was no indication that the internal auditor reviewed financial procedures and practices or tested and evaluated internal controls. Further, the audit report did not clearly identify recommendations for strengthening controls and reducing risk, or specify timeframes for implementing recommendations. In addition, the internal audit did not include a selection of key controls for testing to assure that controls were appropriate and effective when applied, audit procedures to identify unusual and/or questionable transactions, and a review of payroll documents, bank reconciliations, Treasurer's Reports, check signing procedures and fixed asset inventories as required by the contract. Finally, the internal auditor only provided the Board with an annual report instead of the quarterly reports, as required by the contract.

Even though the internal audit function was not performed correctly for the 2006-07 fiscal year, the Board reappointed and entered into another contract with the same individual for the 2007-08 fiscal year. The internal audit function for the 2007-08 fiscal year was also not performed in accordance with Education Law and contract requirements. The Business Manager informed us that the internal auditor's review consisted of interviewing individuals in the Business Office and Personnel Office as to their job responsibilities. The same areas of noncompliance that were applicable for the 2006-07 fiscal year internal audit were also applicable for the 2007-08 fiscal year internal audit.

An additional indication to BOCES officials that the internal audit function was not performed correctly for the 2006-07 and 2007-08 fiscal years should have been that the amounts charged were significantly below the amounts estimated. Specifically, the internal auditor estimated that her services would cost between \$7,500 and \$10,000 for the 2006-07 fiscal year, and between \$5,000 and \$7,000 for the 2007-08 fiscal year. However, the amounts charged were only \$2,138 and \$1,890, respectively. Variances of this size should have raised concerns as to the adequacy of the internal audit function.

Further, even though the internal audit function was not performed correctly for the 2006-07 and 2007-08 fiscal years, the Board once again reappointed and entered into another contract with the same individual for the 2008-09 fiscal year. The Business Manager indicated that, as of January 9, 2009, the internal auditor had not yet provided any services for the 2008-09 fiscal year.

The Board has failed to ensure that the internal audit function is performed in accordance with Education Law and contract requirements. As a result, BOCES officials have been deprived of the opportunity to ascertain if the internal controls over financial operations are adequate.

## **Recommendation**

6. The Board should ensure that the internal audit function is performed in accordance with Education Law and contract requirements.

# Payroll

The primary objective for internal controls over payroll processing is to ensure that employees are paid wages and salaries, and provided benefits, to which they are entitled. Internal controls for payroll consist of written policies and procedures for preparing and disbursing payroll, as well as written Board authorization for salaries, wages and fringe benefits. Two important components of any internal control system are the proper segregation of duties to ensure that no one person controls all phases of a transaction, and management oversight.

BOCES officials did not have comprehensive written policies and procedures for payroll processing and leave time accruals. Consequently, there was a lack of segregation of duties, and compensating controls were either not in place, or not operating effectively. As a result, employee salaries were miscalculated and the leave time granted to employees did not coincide with the terms of their applicable employment contracts.

## Payroll Processing

Written policies and procedures that assign responsibility for specific payroll activities help to ensure that each employee understands the overall objectives and his or her role in the process. An important principle of internal control requires that no individual have uncontrolled access to an entire processing cycle. It is incumbent upon the Board to establish a system of checks and balances to ensure that duties are adequately segregated.

The Board did not adopt comprehensive written policies and procedures for payroll processing. Consequently, payroll duties were not adequately segregated. The payroll clerk was responsible for inputting payroll changes during the fiscal year, collecting timesheets, entering hours worked or salaries paid, printing payroll checks, and maintaining payroll checks until disbursed, all of which were performed with only minimal oversight. BOCES implemented an independent review of the payroll process by having the Assistant Superintendent review and certify final payrolls. However, her reviews were not adequate because she did not compare payroll registers to source documents or checks. In fact, no one, independent of the payroll process, reviewed payroll source documents to verify that the payrolls were accurately processed.

Because of the lack of internal controls, we traced the names of 302<sup>8</sup> recipients of payroll payments during the 2007-08 fiscal year to

<sup>8</sup> The 302 represents all employees who received a payroll payment during the 2007-08 fiscal year whose last names started with the letters "A" through "K."

personnel files or Board Minutes to determine if they were legitimate employees. We noted no exceptions. However, we also tested the accuracy of 20 employees' salaries for the 2007-08 fiscal year and found that three employees were underpaid by a total of \$5,514. The underpayments occurred because the Human Resource Director miscalculated their salaries and the senior account clerk did not detect the errors during her review. In addition, because the 2008-09 fiscal year salaries for these three employees were based on a percentage increase of the 2007-08 fiscal year miscalculated salaries, these employees would have been underpaid by an additional \$6,647 during the 2008-09 fiscal year if we had not notified BOCES officials of the miscalculations. In total, these employees would have been underpaid by \$12,161.

Although the payroll clerk was not responsible for the miscalculated salaries, the lack of policies and procedures, segregation of duties and compensating controls significantly increases the risk that errors, fraud, or abuse could occur, and remain undetected.

### **Leave Time Accruals**

A good system of accounting for employee leave time (vacation, sick, etc.) includes periodically verifying that the records for leave time earned and used, and leave allowances to which employees are entitled, are accurate. BOCES must adopt comprehensive policies and procedures to provide for periodic independent reviews of leave time accrual records and balances throughout the year to ensure that leave time is earned in accordance with employee contracts or collective bargaining agreements and that days used are properly deducted from employee leave time accruals. Additionally, to ensure proper segregation of duties and internal controls, access to the application of the fiscal management system that is used to maintain leave accruals should be limited to only those users whose day-to-day job responsibilities entail maintaining leave accrual records.

The Board has not adopted comprehensive written policies and procedures for leave time. Consequently, a senior account clerk maintains leave time accrual records with only minimal oversight. Divisions submit daily supervisor-approved absence reports to the senior account clerk, which show the amount of leave time taken by each employee. The senior account clerk reviews the reports and deducts the amount of leave time taken from each employee's leave accrual balances. Annually, the senior account clerk sends a leave verification notice to each employee listing their leave accrual balances. Additionally, the senior account clerk submits monthly absence reports to the division heads showing their employees' absences for the month, but the division heads are not required to review the monthly reports for accuracy and send them back to

certify their approval. These constitute the only independent reviews of leave accrual records.

The software application that the senior account clerk uses to maintain leave accrual records has access controls. This is a good control feature, which allows BOCES to restrict the access levels of different users. However, it is not being effectively used. The senior account clerk's job responsibilities entail maintaining leave accrual records on a day-to-day basis. Therefore, she should, and does, have access. However, four additional individuals in the Personnel Office, who do not have these responsibilities, have "all access" to the software application. With this level of access, these individuals have the ability to enter, delete, or modify leave accrual transactions, which creates the opportunity for the manipulation and concealment of transactions.

Because of the lack of internal controls, we reviewed a sample of 15 employees' leave accrual records to determine if leave time was earned in accordance with employment contracts or collective bargaining agreements, and if the days used were properly deducted from their leave accruals. We found that two Business Office employees and one Personnel Office employee earned and used compensatory leave time even though their employment contracts<sup>9</sup> did not contain a provision to do so. As a result, we expanded our sample to include all nine Business Office employees and all seven Personnel Office employees. It was impossible to quantify the entire amount of time earned and used because it was not always recorded in the records due to the informal way in which compensatory time was earned and used. However, based on what was recorded, we determined that the Business Office employees used a total of 32.70 days valued at \$4,476, and that the Personnel Office employees used a total of 33 days valued at \$6,622.

Subsequent to our review, the Human Resource Director indicated that the leave accrual records use the term "compensatory days," which represents both compensatory leave time and flex time,<sup>10</sup> and that all compensatory time for managerial employees was actually flex time and a portion of the compensatory time for confidential employees was flex time. However, we found that the managerial

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<sup>9</sup> All employees of BOCES' Business and Personnel Offices are covered by either the confidential employees' contract or managerial employees' contract, neither of which contain a provision for compensatory leave time.

<sup>10</sup> The Human Resource Director indicated that flex time is leave time that is earned by employees for working above their regular scheduled hours. Additionally, flex time can be earned by employees for working their regular scheduled hours for a five day workweek in a four day period. Employees can then use the flex time earned to take the fifth day off.

employees' contract does not contain a provision for flex time. In addition, although the confidential employees' contract does contain a provision for flex time, confidential employees are not required to submit timesheets. Therefore, it is impossible to determine if the days recorded were flex time.

It is essential that BOCES maintain accurate leave time records to determine the proper amount of termination payments that are due to employees who retire or resign from their positions, and to ensure that BOCES employees are compensated for the amounts to which they are contractually entitled.

## **Recommendations**

7. The Board should adopt comprehensive written policies and procedures for BOCES officials to follow to provide guidance and internal controls over payroll processing and leave time accruals, which incorporate the duties, records and procedures necessary to ensure that records are accurate, efficient, timely, and appropriate.
8. BOCES officials should segregate payroll duties. Where it is not practicable to segregate these duties, BOCES officials should establish appropriate compensating controls, such as increased management review procedures.
9. The Board should ensure that the three employees who were underpaid are properly compensated.
10. Someone independent of the maintenance of leave time records should periodically review leave time accrual records and balances for accuracy.
11. BOCES officials should limit the ability to process transactions in the application used to maintain leave accrual records to only those users whose day-to-day job responsibilities entail maintaining leave accrual records.
12. BOCES officials should ensure that compensatory time or flex time benefits granted to employees coincide with the terms of their employment contracts.

## Cash Receipts and Disbursements

The Board is responsible for designing an effective system of internal controls to safeguard BOCES assets. It is important for the Board to establish policies and procedures to provide reasonable assurance that cash transactions are properly initiated, accurately recorded, deposited timely, and properly approved and documented. It is also important for the Board and BOCES officials to ensure that those policies and procedures are followed. In addition, an effective system of internal controls provides for the segregation of duties so that no single individual controls all phases of a cash transaction. When it is not practical to segregate duties because of limited staff resources, the Board should establish compensating controls.

The Board has established a policy and procedures for cash receipts. However, cash receipts were not collected at the departmental level as directed. Cash receipts were remitted to the Business Office for deposit without appropriate supporting documentation, and, in some departments, cash handling and recordkeeping duties were not segregated and compensating controls were not in place. We also found that deposits were not made on a timely basis and that the Treasurer did not maintain adequate control over her signature in compliance with BOCES policy. Consequently, the payroll clerk and accountant affixed the Treasurer's signature to checks without the Treasurer's direct oversight or review. Due to these control weaknesses, there is little or no assurance that cash receipts are properly accounted for, and not complete assurance that signed checks are produced for only legitimate purposes and are properly disbursed.

### Departmental Cash Collections

A well-designed system of controls over cash receipts requires that District officials establish policies and procedures to provide for a reliable accountability of cash collections immediately upon receipt,<sup>11</sup> the depositing of moneys as soon as possible, a comparison of the amounts deposited with the amounts collected, and the segregation of duties to the extent practicable. When it is not practical to segregate duties, compensating controls must be in place. For example, someone independent of the cash receipts process could verify that cash receipts are recorded and deposited intact. The Board and BOCES officials are responsible for ensuring that departments collect cash as directed.

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<sup>11</sup> For example, through the use of daily sales reports and cash registers

We evaluated the cash receipts process to determine where the greatest risk of loss could occur and selected six departments<sup>12</sup> for further testing. These departments remitted cash receipts totaling approximately \$330,000 to the Business Office for deposit during the 2007-08 fiscal year. The Board established a policy and procedures for cash receipts. However, the departments were not collecting cash receipts as directed because the Board and BOCES officials did not effectively oversee departmental cash collections. Consequently:

- None of the six departments submitted supporting documentation to the Business Office such as sales reports, cash register reports, billing records, enrollment records or attendance sheets to allow the Business Office to verify that all money collected was remitted.
- Three of the six departments (the Plattsburgh Campus Cafeteria, Adult Education Department and the ISC) did not have cash handling and recordkeeping duties that were properly segregated.

Due to these control weaknesses, we reviewed financial records in the six departments for the 2007-08 fiscal year to determine if all money collected was remitted for deposit.<sup>13</sup> Additionally, we examined 60 cash receipts totaling \$63,197 remitted from the six departments to determine whether the cash receipts were deposited timely. We identified the following concerns:

- Cash receipt records for the Cosmetology Program for the 2007-08 fiscal year had been disposed of. Consequently, we were unable to compare a sample of cash receipts to daily sales reports.<sup>14</sup>
- Five deposits for the Adult Education Department totaling \$6,155 were not made until 12 days or more from the date

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<sup>12</sup> The six departments were the Plattsburgh Campus Cafeteria, Culinary Arts Program, Cosmetology Program, Adult Education Department, Instructional Service Center (ISC), and the North Country Teacher Resource Center (NCTRC).

<sup>13</sup> Plattsburgh Campus Cafeteria - We compared a sample of five weeks of cash receipts totaling \$5,019 to cash register sales reports. Culinary Arts Program - We compared a sample of 35 cash receipts totaling \$23,994 to daily sales reports. Cosmetology Program - We attempted to compare a sample of cash receipts to daily sales reports. Adult Education Department - We compared cash receipts for three programs totaling \$23,259 to enrollment records. ISC - We compared the total number of workshop attendees from sign-in sheets to the amount of money remitted. NCTRC - We traced the names of attendees per attendance records for five workshops to cash receipts.

<sup>14</sup> The Cosmetology Program provides lessons to students prior to opening the Cosmetology Clinic later in the fiscal year. As of our last day of fieldwork (October 31, 2008) the cash receipt cycle for the 2008-09 fiscal year had not begun.

the funds were received. For example, a cash receipt totaling \$4,000 collected on June 27, 2007 was not deposited until 48 days later, on August 14, 2007.

Although we did not find any significant monetary discrepancies, the failure of BOCES officials to effectively oversee departmental cash collections provides little or no assurance that cash receipts are properly accounted for.

### **Check Signing**

Effective controls over cash disbursements are vital to prevent unauthorized payments and misuse of funds. The Treasurer plays a critical role in the cash disbursement process because she is responsible for signing checks. BOCES policy requires that the Treasurer ensure that the use of her signature is properly controlled and safeguarded from being used to make payments that have not been properly approved. Education Law requires the Treasurer's actual or facsimile signature to be affixed to BOCES checks by the Treasurer or under the Treasurer's direct supervision.

The Treasurer does not maintain adequate control over her facsimile signature in compliance with BOCES policy or Education Law. Instead, the payroll clerk and accountant produce computer-generated payroll and accounts payable checks with the Treasurer's signature affixed without her direct oversight or review. In addition, although the signed checks are stored in a safe in the Treasurer's office until they are disbursed, we found that four employees have the combination to the safe, and the signed checks are accessible to other individuals because the safe is open throughout the school day. Due to these control weaknesses, we traced 20 cancelled payroll checks to approved payrolls and 20 cancelled accounts payable checks to approved warrants to verify that they were for legitimate BOCES expenditures. We also scanned more than 1,000 cancelled payroll and accounts payable checks to verify that they were issued in sequence and could be accounted for. We did not identify any exceptions. However, the lack of controls does not provide complete assurance that signed checks are produced for only legitimate purposes and are properly disbursed.

### **Recommendations**

13. The Board and BOCES officials should effectively oversee departmental cash collections to ensure that departments are collecting cash receipts as directed by the BOCES policy and procedures.
14. BOCES officials should ensure that the Business Office receives sales reports or other appropriate supporting documentation for all cash receipts that are remitted to the Business Office for deposit, and that all cash receipts are properly accounted for.

15. BOCES officials should segregate cash handling and recordkeeping duties in Departments that collect cash.
16. BOCES officials should ensure that cash and checks are deposited on a timely basis.
17. The Treasurer should maintain control of her facsimile signature, or supervise the signature process for all BOCES disbursements.
18. BOCES officials should ensure that signed checks are only accessible to individuals who are authorized to disburse checks.

**APPENDIX A**  
**RESPONSE FROM BOCES OFFICIALS**

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



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### CVES MISSION

CVES, in partnership with local school districts and their communities, the Board of Regents and the Commissioner of Education, will be a leader in providing quality, cost-effective programs and services that support school districts and their communities to achieve higher standards through enhanced educational opportunities.

August 18, 2009

[Redacted]

Office of the State Comptroller  
One Broad Street Plaza  
Glens Falls, NY 12801

Dear [Redacted]

On behalf of the Clinton-Essex-Warren-Washington BOCES Board of Education, I would like to thank you for your comprehensive review and report of examination for our BOCES. You can be assured that you will have our full cooperation in regards to meeting all of your expectations. In the area of fiscal accountability, we strive to be proactive in an effort to ensure that the interests and assets of our districts and their taxpayers are fully protected. We have responded to Comptroller's audit issues noted in audits of other districts and BOCES by evaluating our own circumstances and implementing cost beneficial policies and procedures in a proactive manner.

As we recognize the thoroughness and subsequent benefits of the Comptroller's audits, we recommend that the New York State Comptroller's Office consider increasing the frequency of their audits and consider eliminating the annual external audit and annual internal audit. The breadth and expertise of the NYS Comptroller's Audit could better serve Districts, as well as eliminate the cost associated with the external and internal audits.

We also suggest that the Comptroller consider creating an annual publication outlining best practices in conjunction with areas most cited and in need of improvement. This would assist school districts in addressing potential areas of concern in a proactive manner, as compared to retrospectively. Board of Education members would be better equipped to spearhead an efficient and effective policy direction for their district if the New York State Comptroller published best practices and recommendations endorsed by the New York State Comptroller's Office. We also recognize that the structure of audits entail a snapshot in time and cannot provide a pre- and post-overview of the circumstances surrounding the audit findings and therefore, make it difficult for the reader to have a historical perspective of the issue. If it is possible to change this format, we believe it would be helpful.

Thank you for the opportunity that allows us to provide additional information pertaining to the areas you addressed in the Report of Examination for CEWW BOCES. The information we compiled, hopefully, will offer a pre- and post-audit perspective of the findings, allowing for a global view of all factors.

Board of Cooperative Educational Services for Clinton / Essex / Warren / Washington Counties  
William A. Fritz Center & John W. Harrold Center • Plattsburgh Yandon-Dillon Center • Mineville

### Reserve Funds

Although BOCES cannot have a fund balance like school districts, by law BOCES can have reserve funds for the purpose of stabilizing participation costs to districts. These funds are used to cover unanticipated spikes in employee benefits such as unemployment, accrued leave benefits, and state retirement costs (ERS), and significantly decrease the impact of rates charged to districts in one given year. For example, based on information from the Comptroller's office, it has been noted that employer contribution rates for State Retirement, particularly, for the New York State and Local Retirement System, could double or triple in the upcoming years. Without reserve funds, fluctuations in these costs would have to be covered by annual budget increases and could not be spread out over several years.

In examining the areas of reserve funds, it is important to note a long-term goal of the CVES Board of Education has been to eliminate and/or reduce long-term liabilities, including but not limited to payment of monies to individuals at their retirement. In 2005, CVES began a two-year process of negotiating with several bargaining units; successfully eliminating contractual payment for unused sick time at retirement. This drastically reduced CVES' long-term liability and will save hundreds of thousands of dollars for our component districts and taxpayers in years to come. This process has resulted in a significant reduction to the overall liability to be covered under the employee benefit accrued liability reserve (EBALR).

By eliminating the retirement benefit through negotiations in several contracts, the amount necessary to fund the remaining liability was significantly lowered. In an effort to reduce the reserve, reserve funds were used to pay for negotiated benefits agreed to as a result of eliminating the sick leave payout. This additional cost should not have been paid by districts through program budgets when the reserve was sufficiently funded for a benefit that no longer existed for most employees. In addition, the reserve was further reduced to help "level out" retiree health costs due to numerous retirements over a short period of time. Without the reserve, the spikes in retiree health would have had to be passed on to districts all at once.

See  
Note 1  
Page 25

As audits are a snapshot in time, the audit report cannot reflect how successful negotiations reduced the amount of money necessary to be maintained in the EBALR reserve. The report also cannot recognize the reserve methodologies adopted by the Board of Education in November 2008 for the purpose of balancing reserve funds, and most importantly, how the BOCES successfully eliminated a long-term liability, saving component districts and taxpayers hundreds of thousands of dollars in years to come.

In regards to comments pertaining to the unemployment reserve, the audit report utilized a six-year average to establish the length of time claims could be paid. However, claims were higher prior to and after the six-year period. For example, the 2008/2009 claims were three times higher than the audit report average. This issue was discussed after you completed your field work. We appreciate that you have included reference to this information in your Report of Examination.

When the unemployment reserve was initiated, it was funded based on a period of higher claims. As a result of claims decreasing, it was not necessary to continue to fund the reserve. Therefore, the reserve was not funded for the last four years. In addition, in November 2008, the Board approved a methodology to address this reserve. The statute pertaining to the Unemployment Reserve would only allow a reduction in the reserve to take place in the next fiscal year. Thus, appropriate action is planned for the August 2009 board meeting to address the unemployment reserve along with other reserves.

Response to Recommendation

The auditor's recommendations with regard to addressing reserve funds will be addressed at the August Board of Education meeting. Information will be provided to the Board regarding the operations and conditions of all the reserve funds and a proposed action plan will be reviewed to implement the recommendations set forth in section 1-5 will be made.

Payroll

The Report of Examination states that three individuals were underpaid due to a miscalculation by the Human Resource Director. However, those employees had an opportunity to make a contractual selection that affected their respective salaries, which were not made at the start of the fiscal year. Calculations done at the start of the fiscal year were done correctly, based on the negotiated contract. Based on a subsequent agreement between the BOCES, affected employees, and their collective bargaining representative, the employees made those selections after the start of the fiscal year, which required that their salaries were recalculated. Therefore, the employees' salaries at the start of the fiscal year were lower than their recalculated salary, creating an "appearance" they were underpaid. In addition, the BOCES, in a formal resolution, recognized flex time for specific employees.

Response to Recommendation

We are reviewing our policies and procedures to consider changes that may be necessary to incorporate the recommendations made in #7, #8, #10 and #11. In regards to #9, the three employees who were purportedly underpaid were properly compensated. With regard to recommendation #12, compensatory time and/or flex time benefits granted to employees coincide with the terms of their employment contracts as a result of negotiations and Board approval.

Internal Audit Function

In June 2006, the Board appointed an Internal Auditor to serve the function required by new legislation as prompted by the Comptroller's 5-Point Plan. The reports issued by the Internal Auditor did provide helpful guidance to strengthen our internal control system, and therefore, the audit committee and administration recommended that the internal auditor be reappointed for two consecutive years. The Board maintained regular oversight over this function throughout the last three years and made appointments in the best interest of the organization.

Response to Recommendation

As recommended by the auditors in #6, the Board, in conjunction with the Audit Committee and administration, will ensure that the internal audit function is performed in accordance with Education Law and contract requirements.

Cash Receipts and Disbursements

Within the Business Office, compensating internal controls have been in effect that provide assurance that a payment could not be rendered without the knowledge of the Treasurer or an authorized individual. Although there were no security issues noted in the audit, we have modified our procedures to address your recommendations for additional safeguards.

Comments made in the Report of Examination regarding cash receipts and disbursements were appreciated, and the process used by students and employees will be examined to ensure there is accurate collection and reporting. One of the challenges for student-based programs is ensuring the educational and academic components are not compromised, and balancing program with fiscal responsibility and accountability. BOCES

will continue to balance the two, ensuring quality academic programs and work experiences for students, while also ensuring fiscal responsibility for component districts and taxpayers.

Response to Recommendation

BOCES administrators have put into place additional procedures to further assure that disbursements are only made under the authority of the Treasurer as recommended in #17 and #18. Furthermore, administrators are in the process of developing procedures to ensure that cash collection is accounted for and to segregate duties in those departments which handle cash as recommended in #13-16.

Once again, we would again like to thank you for your comprehensive review and Report of Examination. Your expertise and professionalism plays an important role in enhancing and strengthening fiscal responsibility and accountability for all public school districts, including the CEWW BOCES. We would also like to extend our appreciation for your recommendations. We will act on your recommendations as soon as practicable.

Respectfully submitted,

  
Larry Barcomb  
CVES Board President

## **APPENDIX B**

### **OSC COMMENTS ON BOCES' RESPONSE**

#### Note 1

We acknowledge the intent of BOCES officials regarding the expenditure of EBALR funds. However, as stated in our report, these are not statutorily authorized uses of reserve funds.

#### Note 2

We disagree. The three employees made a contractual selection affecting their respective salaries during the 2006-07 fiscal year. However, our report addresses the accuracy of their salaries during the 2007-08 and 2008-09 fiscal years. As stated in our report, the miscalculations resulted in actual underpayments during the 2007-08 fiscal year. The miscalculations continued into the 2008-09 fiscal year and would have resulted in the same employees being underpaid again had we had not notified BOCES officials of the errors we identified during our audit.

## 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 BOCES 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: financial oversight, cash receipts and disbursements, purchasing, and payroll and personal services.

During the initial assessment, we interviewed appropriate BOCES officials, performed limited tests of transactions and reviewed pertinent documents, such as BOCES policies and procedures manuals, Board 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 BOCES' financial transactions as recorded in its databases. Further, we reviewed the BOCES' internal controls and procedures over the computerized financial databases to help ensure that the information produced by such systems was reliable.

After reviewing the information gathered during our initial assessment, we determined where weaknesses existed, and evaluated those weaknesses for the risk of potential fraud, theft and/or professional misconduct. We then decided on the reported objectives and scope by selecting for audit those areas most at risk. We selected reserve funds, the internal audit function, payroll, and cash receipts and disbursements for further audit testing.

- Reserve Funds — We interviewed BOCES officials, and reviewed Board minutes for pertinent resolutions, detailed transaction reports, journal entries, supporting documentation, the independent audit report for the 2007-08 fiscal year, and the General Municipal Law to determine if reserve funds were established and maintained in accordance with statutory requirements.
- Internal Audit Function — We interviewed BOCES officials, and reviewed policy manuals, Board minutes, requests for proposals, internal audit reports, contracts entered into with the internal auditor, claims, and provisions of Education Law to determine the extent of compliance and evaluate the performance of the internal audit function.
- Payroll — We interviewed officials, reviewed policy manuals, observed transactions, viewed Business Office employees' computer screens, reviewed user access reports, and examined payroll records such as timesheets, payroll registers, collective bargaining agreements, employment contracts, leave accrual records, and absence reports, to determine the effectiveness of internal controls pertaining to the payroll processing and leave accruals, and any associated effects of deficiencies in those controls.
- Cash Receipts and Disbursements — We interviewed officials, reviewed policy manuals, observed transactions, and examined financial records such as cash receipt slips, cash receipts books, validated deposit slips, bank statements, journal entries, cancelled checks, warrants,

and claims to determine the effectiveness of internal controls, and any associated effects of deficiencies in those controls.

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

## APPENDIX D

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