



# East Irondequoit Central School District Internal Controls Over Payroll and Personal Services

Report of Examination

Period Covered:

July 1, 2004 - January 31, 2006

2006M-74



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# State of New York Office of the State Comptroller

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## Division of Local Government Services and Economic Development

June 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. These reports also may identify positive aspects of school district operations that other school districts may wish to emulate. The following is our report on the East Irondequoit Central School District — Internal Controls Over Payroll and Personal Services.

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 identifies two positive features of the East Irondequoit Central School District's payroll process.

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*

# Introduction

## Background

The East Irondequoit Central School District is located in the Town of Irondequoit, Monroe County. Adjacent to the City of Rochester, it serves a community of 33,000 residents. The District is governed by the Board of Education which is composed of nine elected members. The Board is responsible for the general management and control of the District's financial and educational affairs. The Superintendent of Schools 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 six schools in operation within the District, with approximately 3,500 students and 500 employees. The District's budgeted expenditures for the 2005-06 fiscal year were \$52 million, funded primarily with State aid, sales tax, real property taxes and grants. Payroll expenditures represent a significant portion of the District's budget. Total payroll costs were \$21.5 million during the 2004-05 fiscal year, representing 38 percent of the total expenditures of \$56 million. The Board approves new hires and establishes wages, salaries and benefits for employees by resolutions, negotiated contracts and collective bargaining agreements. The Human Resource Department inputs new employees into the computerized payroll system and the Payroll Department processes the payrolls.

## Objective

The objective of our audit was to examine the District's internal controls over payroll and personal services. Our audit addressed the following related question:

- Has the District established adequate internal controls over payroll and personal services and are those controls operating effectively?

## Scope and Methodology

During this audit, we examined the internal controls of the East Irondequoit Central School District for the period July 1, 2004 to January 31, 2006.

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 B of this report.

**Comments of  
District Officials**

The results of our audit 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 positive audit findings.

## Payroll and Personal Services

An internal control system, which is established by management and implemented by District officials, is the integration of activities, plans, attitudes, policies and efforts of the people in an organization to provide reasonable assurance that the organization will achieve its objectives. Common objectives of internal controls over payroll and personal services include accurately calculating the amount of gross and net pay, reporting withholdings properly, providing employees with voluntary deductions, charging the proper appropriation accounts, safeguarding the District against fraud and abuse related to payroll, and providing for timely payment to employees and other third parties (e.g., Internal Revenue Service).

Based on our tests, we concluded that the District's internal controls over payroll and personal services are appropriately designed and operating effectively. We also noted that there were additional processes in place to decrease risk of errors or irregularities in the payroll process. These are the yearly payout audit done by the District and the confirmation of wages for each employee between the Human Resource (HR) Department and the Payroll Department.

### **Payroll Payout Audit**

One way to help safeguard the District against fraud is to require that periodic payroll payout audits be performed by an employee(s) not connected with the payroll process. A payout audit entails personally handing out each paycheck or remittance advice (for direct deposits) to the appropriate individual. The employee signs for the paycheck or remittance advice when he or she receives it, and provides identification when necessary to verify his or her identity. This process validates the existence of all employees receiving pay.

In 2005, the District conducted a payroll payout audit at three of the six schools. This process was completed in April and May of 2005, with each school audited separately and without prior notification. As part of the payout audit, the internal claims auditor, with assistance from the school secretaries, obtained the signature of each employee on the payroll register for the three schools tested. If the internal claims auditor or secretary did not know the employee receiving the check or remittance advice, they required the employee to provide identification. Records show that the District obtained the signatures of all employees who worked in the three schools during the test period. In 2004, the District conducted a similar payout audit in all six schools.

Random and periodic payroll payout audits help ensure that payroll disbursements are made to only bona fide employees, and decrease the risk of fraud and abuse of District funds.

## **Verification of Salary and Wage Computations**

Good internal control requires a separation of functions and responsibilities among two or more individuals who provide a system of “checks and balances” over each other’s activities.

The District implemented a process where the Payroll Department and HR Department independently analyze each employee’s Board approved compensation and calculate their ensuing year’s wages. Calculations factor in various components such as hire date, contractual increases, hours worked per day, and days worked per year. Following the separate calculation of each employee’s wage for the year, personnel from both the Payroll Department and the HR Department together review each employee’s wage amount and investigate any discrepancies. The calculated wage amounts are then used by HR Department staff to fill in the salary notices given to employees. Copies of the salary notices are kept on file in both the HR and Payroll Departments. The employee’s wages are periodically reviewed by both the HR Secretary and Payroll Supervisor throughout the year as each has created their own spreadsheet that shows all applicable wage data for each employee. Any change made during the year, such as a job or title change, causes another review and verification of the employee’s new wage.

We tested the rate of pay or approved salary amount on the salary notices to employment contracts, union agreements and payroll records with no problems noted. Based on the results of this and other tests,<sup>1</sup> we concluded that the District’s internal controls over payroll and personal services are appropriately designed and operating effectively. The District’s internal controls, including periodic payout audits and the verification of salary and wage computations, help the District decrease the risk of errors and irregularities in the payroll process.

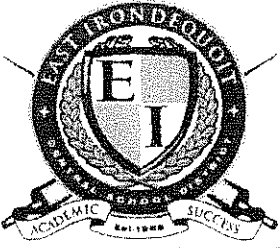
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<sup>1</sup> See Appendix B of this report for our audit test procedures.

## **APPENDIX A**

### **RESPONSE FROM DISTRICT OFFICIALS**

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



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June 19, 2006

Office of the State Comptroller  
Statewide Unit  
State Office Building, Room 409  
333 East Washington Street  
Syracuse, New York 13202

The East Irondequoit Central School District prides itself on maintaining the highest ethical standards in its operations supported by a strong system of internal controls.

Our success in this area is the result of many years of reviewing how we do business. We believe that continuous improvement makes us stronger as an organization.

The **payroll payout audit** and **verification of salary and wage computations** have been in place for many years. We believe that they improve confidence in our payroll and human resources department by demonstrating to employees that we place a premium on the integrity and accuracy of the work that we do.

We will not lose our focus even though your audit has been completed. We will look for new techniques to make our processes even sounder than they are today.

We appreciate the opportunity for review by your office as a means of verifying that our practices are sound and protect our taxpayers.

Sincerely,

Susan K. Allen  
Superintendent of Schools

## APPENDIX B

### 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. We also assessed the design of Information Technology controls placed in operation by district management to determine the scope of the audit.

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 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 database(s). 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 that controls appeared to be adequate and limited risk existed in most of the financial areas we reviewed. We then decided upon the reported objective and scope by selecting for audit an area that appeared to have additional controls in place. We selected payroll and personal services for further audit testing. To accomplish our audit objective and obtain valid audit evidence, our procedures included the following steps:

- We verified the accuracy of payroll by tracing supporting records, such as time cards and accrual records, to payroll records. We also traced the rate of pay for employees from negotiated contracts and salary schedules approved by the Board to salary notices and payroll records. Then we verified extensions, footings, and summaries of payrolls. Finally, we verified that proper appropriation codes were used when recording payroll information.
- We reviewed deductions from gross pay by verifying that employees were subject to mandatory deductions and that optional deductions were supported by employee authorization.
- We verified authorizations of payrolls by viewing the deputy superintendent's approval of payrolls, and viewed payroll information submitted for certification by Civil Service.
- We reviewed the system for reporting payroll transactions by tracing the amounts recorded on individual earnings records to annual wage statements and compared remittances for income tax and social security to supporting records.
- We reviewed the system for accounting for leave credits by confirming that additions to and use of leave credits conformed with negotiated contracts, personnel policies and resolutions of the Board, and we traced the use of leave credits from time cards to leave records.

- We reviewed the system for monitoring insurance benefits by comparing coverage to negotiated contracts, personnel policies and resolutions of the governing board and we verified the accounting for contributions for current and former employees.
- We reviewed the system for monitoring flex benefits by verifying enrollment, amounts authorized and deducted, and the flex benefits account reconciliation.
- We also reviewed the District's processes for conducting payroll payout audits and ensuring the accuracy of wage calculations.

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.

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