



Fonda-Fultonville Central School District Internal Controls Over Payroll

Report of Examination

Period Covered:

July 1, 2005 — July 31, 2007

2007M-255



Thomas P. DiNapoli

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State of New York Office of the State Comptroller

Division of Local Government
and School Accountability

December 2007

Dear School District Officials:

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

Following is a report of our audit of the Fonda-Fultonville Central School District, entitled Internal Controls Over Payroll. 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.

This audit's results and recommendations are resources for district 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

Introduction

Background

The Fonda-Fultonville Central School District (District) encompasses the Town of Glen and portions of the Towns of Amsterdam, Charleston, Florida, Mohawk, Palatine and Root in Montgomery County, portions of the City of Johnstown and Town of Johnstown in Fulton County, and portions of the Towns of Carlisle and Esperance in Schoharie 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 is one school complex in operation within the District, with approximately 1,500 students and 240 employees. The District's total expenditures for the 2005-06 fiscal year were approximately \$25.4 million, which were funded primarily with State aid, real property taxes, and grants.

Objective

The objective of our audit was to determine if internal controls over payroll were appropriately designed and operating effectively to adequately safeguard District assets.

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: financial oversight, cash receipts and disbursements, purchasing, information technology, and payroll and personnel services. 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 payroll area and, therefore, we examined internal controls over payroll for the period July 1, 2005 to July 31, 2007.

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 and recommendations have been discussed with District officials and their comments, which appear in Appendix A, have been considered in preparing this report.

Internal Controls Over Payroll

Internal controls over payroll include procedures that describe employee responsibilities in preparing and disbursing payroll, and the written Board authorization requirements for salaries, wages and fringe benefits. An effective system of internal controls can provide the Board with assurance that employees are paid and provided benefits in accordance with contract provisions, and that transactions are appropriately recorded and authorized by management. The failure to establish and adhere to a sound system of internal controls could expose District resources to the risk of loss or improper use.

We reviewed payroll policies, procedures and records, and interviewed and observed District officials and employees to learn about the procedures and controls for processing payroll. We found:

- Salaries and benefits are governed by collective bargaining agreements or individual employment contracts. New hires, resignations, retirements, salary adjustments and contract amendments are approved by the Board, and processed by the payroll coordinator only upon the receipt of written authorization from the Board.
- The Superintendent performs a thorough review of various payroll reports prepared by the payroll coordinator and randomly selects employees from the reports to verify that the pay rates are correct before he certifies the payroll.
- Once the payroll coordinator finalizes the payroll and paychecks are printed, the Superintendent compares the original payroll reports to the final payroll reports to ensure that no changes have been made.
- Employees who opt to receive paychecks are required to sign forms attesting that they have been received.¹

We reviewed all collective bargaining agreements and individual employee contracts for our audit period to ensure salary payments and benefits were properly authorized and in accordance with the agreements. We reviewed 2006-07 salaries for 20 employees to ensure payments were calculated correctly, and verified that leave time records for 15 employees were accurate. We also tested to

¹ Employees have the option to be paid through direct deposit or to receive paychecks.

determine that separation payments to seven employees, health insurance “buy out payments” to 10 employees, and health/dental insurance contributions for 10 employees were in agreement with collective bargaining agreements or employment contracts. Except for minor issues, which we addressed with District officials, we found no significant deficiencies in the payroll records and processes we examined.

APPENDIX A

RESPONSE FROM DISTRICT OFFICIALS

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

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Honda, New York 12068-1501

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Fax: 518-853-4461

Dr. James D. Hoffman
Superintendent of Schools

November 28, 2007



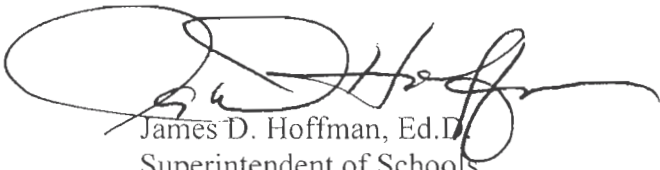
Office of the State Comptroller
One Broad Street Plaza
Glens Falls NY 12801

Dear [REDACTED]:

I would like to take this opportunity to thank you for the professional manner in which your examiners performed, in the completion of their audit of our district this past fall. It was a process in which we felt we gained information, as well as enabled us to establish protocols that will improve our methods in the future.

We have no questions or concerns regarding the draft which was presented in our November 14, 2007 exit conference. Thank you again for what was, for us, a very beneficial experience.

Sincerely,



James D. Hoffman, Ed.D.
Superintendent of Schools

JDH:kk

Carey Shultz, Business Manager
Board of Education Members

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: financial oversight, cash receipts and disbursements, purchasing, information technology, and payroll and personal services.

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 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 objective and scope by selecting for audit those areas most at risk. We selected payroll for further audit testing. To accomplish the objective of the audit and obtain valid audit evidence, we examined records and reports from July 1, 2005 to July 31, 2007. We:

- Reviewed policies, procedures, and records pertaining to payroll.
- Interviewed and observed District officials and employees to learn about procedures used to process payrolls.
- Reviewed all collective bargaining agreements, individual employee contracts, payments and benefits to ensure payments and benefits were properly authorized.
- Reviewed and tested 20 employees' 2006-07 salaries to ensure all payments were legitimate and calculated correctly.
- Reviewed and tested 15 employees' leave time records for accuracy.
- Reviewed separation payments to seven employees who retired during our audit period.
- Reviewed and tested payments made to 10 employees who received a buyout for not participating in the District's health insurance plans.
- Tested a sample of 10 employees participating in the health and/or dental plans to ensure the amounts the employees were contributing towards the cost of their insurance coverage were in agreement with collective bargaining agreements or employment contracts.

We conducted our 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 C

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