



White Plains City School District Internal Controls Over Payroll and Claims Auditing

Report of Examination

Period Covered:

July 1, 2006 — August 31, 2007

2007M-273



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 White Plains City School District, entitled *Internal Controls Over Payroll and Claims Auditing*. 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*



State of New York Office of the State Comptroller

EXECUTIVE SUMMARY

The White Plains City 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 Assistant Superintendent of Business is responsible for the District's finances and accounting records. The Board has appointed a claims auditor to audit claims and assigned the responsibility to certify payrolls to the Assistant Treasurer.

For the period July 1, 2006 through August 31, 2007, the District paid salaries, wages, and fringe benefits totaling approximately \$98.5 million. This represents the most significant expenditure incurred by the District. During the same period, the District also paid claims totaling approximately \$67 million from the general, special aid, capital projects, school lunch and trust and agency funds.

Scope and Objective

The objective of our audit was to determine if internal controls over payroll and claims auditing were designed and operating effectively for the period July 1, 2006 through August 31, 2007. Our audit addressed the following related questions:

- Are internal controls over payroll appropriately designed and operating effectively to adequately safeguard District assets?
- Are internal controls over claims auditing appropriately designed and operating effectively to adequately safeguard District assets?

Audit Results

The District has not established an internal control system that provides adequate oversight of payroll certification, pre-approval of overtime, and proper access controls to software applications within the information technology system. As a result, there is an increased risk for payroll errors or irregularities to go undetected and lead to unnecessary expenses for the District. We found that 19 out of 32 payroll warrants, totaling \$51,855,691, were not certified as required by Education Law and none had a date to indicate when they had been reviewed. Therefore, there is an increased risk that payments were made without proper review and approval. In addition, the Board did not adopt an overtime policy and

District officials did not properly monitor overtime usage. The Facilities and Operations Department incurred \$614,837 of overtime without maintaining adequate documentation of overtime usage. The District also did not have proper access control within its business software applications.

The Board did not comply with Education Law when it appointed two claims auditors, one of whom, the deputy claims auditor, is not independent of the business functions of the District. By having two claims auditors, District officials had the ability to and did present claims to the deputy claims auditor instead of the independent claims auditor. This resulted in approximately 19 percent of the District's warrants being approved by a claims auditor not independent of the District's business functions and an instance where the deputy claims auditor approved a claim which had been denied by the claims auditor. As a result, the District had no assurance that the claims approved by the deputy claims auditor were for appropriate charges against the District.

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.

Introduction

Background

The White Plains City School District (District) is located in the City of White Plains, Westchester 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. The Assistant Superintendent of Business is responsible for the District's finances and accounting records. The Board has appointed a claims auditor to audit claims, and has assigned the responsibility to certify payrolls to the Assistant Treasurer.

There are nine schools in operation within the District, with approximately 7,000 students and 1,800 employees. The District's budgeted expenditures for the 2006-07 and 2007-08 fiscal year are \$166 million and \$174 million respectively, funded primarily with State aid, real property taxes, utility taxes and grants.

For the period July 1, 2006 through August 31, 2007, the District paid salaries, wages, and fringe benefits totaling approximately \$98.5 million. This represents the most significant expenditure incurred by the District. During the same period, the District paid claims totaling approximately \$67 million from the general, special aid, capital projects, school lunch, and trust and agency funds.

Objective

The objective of our audit was to determine if internal controls over payroll and claims auditing were designed and operating effectively. Our audit addressed the following related questions:

- Are internal controls over payroll appropriately designed and operating effectively to adequately safeguard District assets?
- Are internal controls over claims auditing appropriately designed and operating effectively to adequately safeguard District assets?

Scope and Methodology

We examined internal controls of the White Plains City School District for the period July 1, 2006 to August 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 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 that they planned to initiate corrective action.

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*.

Payroll

A good system of internal controls consists of adopted policies, practices and procedures that provide reasonable assurance that resources are being properly accounted for and safeguarded. The Superintendent, as chief executive officer, is responsible for implementing the policies under the Board's oversight. An important component of any internal control system is to certify that the persons included in the payroll have regularly performed their duties in accordance with the terms of their employment contracts. Another component of internal controls is to ensure that all overtime payments to employees are pre-approved and properly documented. In addition, user rights to business software applications must be limited to job functions to provide adequate segregation of duties within the District's information technology (IT) system.

The District has not established an internal control system that provides adequate oversight of payroll certification, pre-approval of overtime, and proper access controls to software applications within the IT system. As a result, there is an increased risk for payroll errors or irregularities to go undetected and lead to unnecessary expenses for the District.

Payroll Certification

Education Law requires that districts certify payrolls. A certified payroll is one that has been examined and approved by an administrator, who certifies that the persons included in the payroll have regularly performed their duties in accordance with the terms of their employment contracts, and that any additions to or deductions from normal salary payments have been made pursuant to the District's bylaws and based on personnel records maintained by the District. The Board has assigned the responsibility to certify the District's payroll to the District's Assistant Treasurer.

We examined all payroll warrants from July 7, 2006 through August 23, 2007 totaling approximately \$98.5 million to determine if they had been certified. We found that 19 out of 32 payroll warrants, totaling approximately \$52 million, or 53 percent of total payrolls, were not certified and none including the certified payroll warrants had a date to indicate when they had been reviewed.

The District did not adhere to Education Law and its own policy when it did not certify payrolls. In addition, by not dating payrolls when certifying them, there is no indication that payrolls were examined prior to the issuance of payments to employees, increasing

the risk that inappropriate or incorrect payments may have occurred and gone undetected. Furthermore, a thorough review of payroll warrants would enable the District to detect high levels of overtime and take action to curtail any unnecessary overtime.

Overtime

A critical control over payroll and overtime expenditures is written pre-approval of overtime worked and subsequent approval of the employee's timesheet for payment. This helps ensure that the District incurs only necessary overtime costs. Overtime logs indicate the date, time of day, and purpose of overtime and, combined with proper authorization, provide an acceptable method of documenting overtime records. Proper coding of overtime expense along with detailed logs of work performed can further provide for budgetary control of overtime costs and allow for analysis of additional staffing needs or revision of work priorities and scheduling. The Board has not established an overtime policy and District officials did not implement controls to properly document and monitor overtime expenditures.

We analyzed fiscal year 2006-07 overtime records and payroll warrants and found that the District paid \$716,849 in overtime, most of which (86 percent) can be attributed to the Facilities and Operations Department. The District's Facilities and Operations Department, with a staff of 90 employees, had approximately \$3.7 million in regular salaries and incurred an additional \$614,837 in overtime pay during the 2006-07 fiscal year. Five of the 90 employees received 21 percent of \$614,837 of overtime paid to Facilities and Operation employees. One employee's overtime amounted to 65 percent of his annual salary. This employee's annual salary was \$52,134 and he received \$33,753 in overtime pay. The Director of Facilities (Director) informed us that overtime for Facilities and Operations personnel is verbally pre-approved by building administrators and no documentation is maintained to corroborate the purpose of overtime. As a result, there is an increased risk to the District of incurring unnecessary overtime cost.

The Director informed us that the high overtime cost had been brought to his attention by the Assistant Superintendent for Business in October of 2007 and he is currently taking measures to alleviate any unnecessary overtime costs. The District has obtained a list of nine substitute custodians who will be used when possible and paid at a regular hourly salary rate. He is also scheduling fewer workers for events that occur outside the normal work day and is currently drafting a custodian handbook which will have policies and procedures to follow for overtime usage.

Software Access Rights-Payroll

District officials are responsible for establishing controls that provide checks and balances so that one person does not exercise control over

all or most of the payroll process. The use of information technology affects the fundamental manner in which the District initiates, processes, records, and reports payroll transactions. To ensure proper segregation of duties and internal controls, the computer system should allow access to users for certain functions based on their job descriptions and responsibilities. Proper segregation of duties over payroll processing ensures that incompatible payroll duties relating to personnel (hiring, pay rate setting and benefits), timekeeping and supervision, payroll records processing and check distribution are not accessible by the same person.

Although the District has a Human Resource Department independent of payroll processing, the current software grants payroll personnel access to personnel records. As such, payroll personnel would be able to add new hires, adjust salaries, change payment instructions, update employee files, and enter salaries. These access control weaknesses increase the risk that payroll transaction errors and irregularities may occur and go undetected. District officials did not implement mitigating controls by having someone independent of the payroll process review computer-generated audit logs that monitor payroll system activity for unusual transactions or adjustments. We tested 331 transactions (including authorization of new hires and terminations, verification of employment, pay rates, overtime, and approval and recording of absences) and did not uncover any errors or irregularities.

Recommendations

1. District officials should ensure that the Assistant Treasurer reviews and certifies all payrolls as required by the District policy.
2. The Board should develop overtime policies and procedures, and District officials should ensure they are implemented. Such policies and procedures should require the pre-approval of all overtime and document the purpose.
3. District officials should ensure that the payroll software application only allows access to users for certain functions based on their job descriptions and responsibilities.
4. District officials should ensure that audit logs are routinely generated to monitor payroll system activity for unusual transactions or adjustments.

Claims Auditing

The audit and approval of claims is one of the most critical elements of the District's internal control system. The Board is responsible for auditing the District's claims before they are paid. If the Board chooses, it may appoint a claims auditor to assume the powers and duties of the Board with respect to auditing claims. Guidance from the State Education Department reiterates that there is no provision in law to permit the Board to appoint more than one claims auditor. The claims auditor must report directly to the Board and not to any other school district staff or management. The claims auditor's ability to act in a totally independent manner could be compromised if he/she is placed under the supervision or control of other school district personnel.

The Board has elected to appoint a claims auditor to assume the Board's powers and duties of approving or denying claims against the District. They have also appointed the Assistant Superintendent for Business' secretary as a deputy claims auditor to function in that capacity in the event of the inability of the claims auditor to act, or in her absence. The deputy claims auditor was also authorized to act in emergency situations.

The Board did not comply with Education Law when it appointed the secretary as deputy claims auditor. By having two claims auditors, District officials had the ability to present claims to the deputy claims auditor instead of the claims auditor. This resulted in the deputy claims auditor approving approximately 19 percent of the District's warrants and an instance where the deputy claims auditor approved a claim which had been denied by the claims auditor. The claims auditor originally denied a claim for \$4,700 and requested more documentation to verify that the Board had approved an increase to an original contract; subsequently it was presented to the deputy claims auditor who approved it. The District did eventually supply the claims auditor with the proper documentation. This illustrates the inherent risk of having two claims auditors. We examined 598 warrants totaling \$67,041,437 and found that the deputy claims auditor approved 113 warrants containing 542 claims for a total of \$10,019,817 during our audit period.

Due to the high number of claims that were approved by the deputy claims auditor we sampled 50 of the 542 claims totaling \$291,273 that she had approved. All payments were supported by proper documentation. However, we noted that none of the claims indicated they were for emergency situations. We also analyzed the number

of days between the claims auditor's approval on warrants and the payment of the claims and found that on average claims were paid within four days of the warrants approval. Therefore, with proper planning, District officials could have waited for the claims auditor's approval before payments were processed. We also found 10 instances when both the claims auditor and the deputy claims auditor approved different warrants on the same day, indicating that both were present on the respective day.

According to District officials, they were unaware that they were not in compliance with Education Law when they appointed the deputy claims auditor. When we brought it to the District's attention, they agreed with our assessment and abolished the position effective November 5, 2007.

Recommendation

5. District officials should instruct personnel to properly plan submission of claims to permit sufficient time for the claims auditor to review and approve before payment is due.

APPENDIX A

RESPONSE FROM DISTRICT OFFICIALS

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



**BOARD OF EDUCATION
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December 5, 2007

[REDACTED]
Office of the State Comptroller
33 Airport Center Drive, Suite 103
New Windsor, NY 12553-4725

Dear [REDACTED]:

The Board of Education and Administration of the White Plains City School District extend their appreciation for the professionalism, dedication, and collaboration by the representatives of the New York State Office of the Comptroller during the audit process. The entire process was deemed an opportunity to assess the policy and practice of internal controls to safeguard the investment that the White Plains community has made in their school system.

The Board of Education and Administration are pleased that after the comprehensive and methodical process undertaken by your office, the audit noted only five (5) matters of concern. This gives the White Plains Board of Education and public a level of assurance that the business operations of the White Plains City School District are fiscally sound and that the business office structure and internal controls are functioning properly.

The following are the corrective actions that will be taken to ensure compliance with identified items and recommendations:

Recommendation #1:

District officials should ensure that the Assistant Treasurer reviews and certifies all payrolls as required by the District policy.

Assistant Superintendent for Business has notified in writing the payroll staff and the Assistant Treasurer that the payroll is not to be released until the certification has been completed in accordance with District policy. Superintendent or designee will check on a quarterly basis to ensure full compliance.

Recommendation #2:

The Board should develop overtime policies and procedures, and District officials should ensure they are implemented. Such policies and procedures should require the pre-approval of all overtime and document the purpose.

The Board of Education and Superintendent will develop overtime policies and regulations. The Assistant Superintendent for Business and Assistant Superintendent for Human Resources will develop procedures to ensure compliance with the defined policies and regulations. Procedures will require the pre-approval of all overtime by the appropriate administrator and a clear documentation of the purpose. The Assistant Superintendent for Business will review regular overtime reports to ensure full compliance. A summary report will be provided to the Audit/Finance Committee at least twice a year.

Recommendation #3:

District officials should ensure that the payroll software application only allows access to users for certain functions based on their job descriptions and responsibilities.

The District, in collaboration with Southern Westchester BOCES and [REDACTED], will make the appropriate changes to the [REDACTED] [REDACTED] to ensure that users of the software have access only to those modules required for their job duties.

Recommendation #4:

District officials should ensure that audit logs are routinely generated to monitor payroll system activity for unusual transactions or adjustments.

Since November, 2007, audit logs and payroll change reports are being reviewed. On a monthly basis, the School Business Manager will review the Payroll Change Analysis Report, Manual Check Report and Name Change Report. On a random basis, but at least once monthly, the Assistant Superintendent will review the System Audit Analysis Report. The Assistant Superintendent for Business will check on a quarterly basis to ensure full compliance.

Recommendation #5:

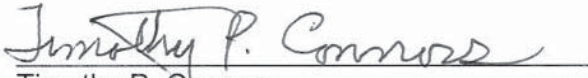
District officials should instruct personnel to properly plan submission of claims to permit sufficient time for the claims auditor to review and approve before payment is due.

In October, 2007, administrators and clerical staff were provided with purchasing regulations and procedures and have been instructed to properly submit claims on a timely basis. The Internal Claims Auditor is to review and approve all claims for processing. The District will seek to hire a substitute claims auditor to provide coverage for short-term absences of the Internal Claims Auditor. In a rare emergency, the Superintendent and Assistant Superintendent for Business may authorize an emergency check. In such cases, the Internal Claims Auditor should review after the occurrence and provide written documentation to the Audit/Finance Committee. The Superintendent and Assistant Superintendent for Business will check on a quarterly basis to ensure full compliance.

Thank you for the opportunity to respond to this report. The Board of Education, Administration and Business Office personnel benefited from the Office of the State Comptroller's examination of the White Plains City School District's business operations.



Donna O. McLaughlin
Board of Education President



Timothy P. Connors
Superintendent of Schools

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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, 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 objectives and scope by selecting for audit those areas most at risk. We selected payroll and claims auditing for further audit testing. Our testing included:

- Review of Board minutes and policy manual
- Review of collective bargaining contracts and individual employee contracts
- Examination of payroll warrants
- Review of time cards
- Review of computer access rights
- Review of financial records such as financial statements, accounting records, and overtime reports from July 1, 2006 to August 31, 2007
- Examination of cash disbursement warrants for general fund, special aid, school lunch, capital projects and trust and agency funds
- Review of vendor payment packets
- Examination of personnel files.

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.

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