



# Glens Falls Common School District Internal Controls Over Payroll and Claims Processing

Report of Examination

Period Covered:

July 1, 2006 — June 18, 2007

2008M-5



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**

March 2008

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, in part, 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 Glens Falls Common School District, entitled *Internal Controls Over Payroll and Claims Processing*. 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 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 Glens Falls Common School District (District) is located in the City of Glens Falls, Warren County. The District is governed by the Board of Education (Board), which comprises three elected Trustees. 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 in operation within the District, with approximately 150 students and 40 employees. The District's general fund budgeted expenditures for the 2006-07 fiscal year were \$3.5 million, which were funded primarily with State aid, real property taxes, and grants.

## Objective

The objective of our audit was to examine the District's internal controls related to payroll and claims processing. Our audit addressed the following related questions:

- Are internal controls over payroll processing appropriately designed and operating effectively?
- Are internal controls over claims processing appropriately designed and operating effectively?

## Scope and Methodology

We examined the internal controls over payroll and claims processing of the School District for the period July 1, 2006 to June 18, 2007 and the exit payment made to the most recently retired non-instructional employee, who retired in July 2005.

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

## Comments of District Officials and Corrective Action

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

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 Processing

The Board is responsible for designing internal controls for payroll processing that consist of policies and procedures to guide employees in their day-to-day duties and ensure that employee compensation is specifically defined and authorized. As with all school districts, payroll and fringe benefits represent a large portion of the District's annual budget. The significant costs involved highlight the importance of good internal controls in this area. When the Board fails to design appropriate internal controls that operate effectively, there is an increased risk that fraud, abuse, or errors may occur and not be detected and corrected in a timely manner.

The Board did not exercise proper oversight by adopting payroll policies and procedures to guide employees in conducting their duties and ensure that employee compensation was specifically defined and authorized. For example, the Board did not approve salaries totaling \$228,341 and benefits and exit payments totaling \$59,868 for all nine non-instructional employees in our sample. As a result, there is an increased risk that payroll duties will not be performed in accordance with the Board's expectations and that employees could receive compensation that the Board does not intend for them to receive.

### **Policies and Procedures**

The primary objective for internal controls over payroll is to ensure that employees are only paid wages and salaries, and provided benefits, to which they are entitled. The Board is responsible for approving written policies and procedures to delineate employee responsibilities in preparing and disbursing payroll, the review and certification of payrolls, and for providing guidance regarding employee entitlements including the accrual and use of leave time.

The Board did not approve payroll policies or procedures to guide employees in their day-to-day duties. Although the Treasurer did develop her own informal procedures, these procedures did not cover all payroll related duties (for example, entering or changing salary and benefit information). As a result, the Treasurer performed her duties without written guidance and direction from the Board. In addition, there is an increased risk that payroll duties will not be performed consistently or in accordance with the Board's expectations, and that employees could receive compensation to which they are not entitled.

### **Employee Compensation**

The Board must clearly define and authorize compensation to ensure that employees receive only the salary and benefits that the Board

intends for them to receive. The Board may establish District-wide policies or pass annual resolutions for employees that are not covered by individual employment contracts or collective bargaining agreements.

Although the Board entered into written employment contracts with the Superintendent and instructional staff, there were no policies, resolutions, employment contracts or collective bargaining agreements to define and authorize compensation for the 17 non-instructional employees. We reviewed the salaries and benefits provided to eight of these non-instructional employees for the 2006-07 fiscal year, which totaled \$228,341 and \$53,965, respectively. The eight employees had annual notification letters that stipulated their salary and benefits. While we did not identify any concerns with the calculation of salaries and benefits, we found that the Board did not formally review and approve the notification letters. Furthermore, there was no indication the Board had authorized the Superintendent to approve these letters on its behalf.

We also reviewed the exit payment made to the most recently retired non-instructional employee, who retired in July 2005. Although this employee received an exit-payment consisting of \$4,200 for accumulated sick days and \$1,703 for remaining vacation days, there was no policy, resolution, employment contract or collective bargaining agreement to authorize this payment. District officials told us that because non-instructional employees did not have employment contracts, the District referred to the instructional employees' contract for guidance in making the payment.

Without specific policies, resolutions, employment contracts or collective bargaining agreements to define and authorize compensation there is an increased risk that employees could receive salary, benefits, and payments upon separation from employment that the Board does not intend for them to receive.

## **Recommendations**

1. The Board should adopt adequate payroll policies and procedures to address all aspects of payroll processing, including procedures for entering or changing employee salary and benefit information.
2. The Board should ensure that all salaries and benefits provided to employees are covered by the terms of District-wide policies, resolutions, employment contracts or collective bargaining agreements.

## Claims Processing

The objectives of internal controls over claims processing are to ensure that every claim is supported by adequate documentation and that the amounts claimed represent actual and necessary District expenses. The Board is responsible for adopting policies and procedures, and for conducting a deliberate and thorough audit of all claims before they are paid,<sup>1</sup> to ensure that proposed payments are proper and valid charges against the District, the District has actually received the goods or services described in the claims, and to reduce the risk that fraud, abuse, errors or irregularities could occur.

As part of our review of the District's claims processing procedures, we reviewed 100 claims totaling \$22,588 to determine if proposed payments were proper and valid, and that claims included proper approvals and documentation. Except for some minor issues which we addressed with District officials, we did not identify any significant deficiencies in the claims processing procedures.

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<sup>1</sup> If the Board chooses, it may adopt a resolution to appoint an internal claims auditor to assume the powers and duties of the Board with respect to auditing claims.

## **APPENDIX A**

### **RESPONSE FROM DISTRICT OFFICIALS**

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



**GLENS FALLS COMMON SCHOOL DISTRICT**

**ABRAHAM WING SCHOOL**

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Glens Falls, New York 12801

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(518) 793-1950

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(518) 792-2557

February 27, 2008

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

To Whom It May Concern:

Below is the Glens Falls Common School District's response to the audit examining internal controls related to payroll and claims processing covering the period from 7/1/06 through 6/18/07.

**PAYROLL PROCESSING**

On page 6 of the report the second sentence of the second paragraph states: " For example, the Board did not approve salaries totaling \$228,341 and benefits and exit payments totaling \$59,868 for all nine non-instructional employees in our sample." The District would like it indicated that no one received wages/benefits that were not due to them:

See  
Note 1  
Page 12

On page 7 of the report the last sentence of the first paragraph states: "The Board only considered the total dollar amounts; it did not see, or approve, the salary increases for each non-instructional employee." The spreadsheets prepared for the Board in fact do list each non-instructional employee separately showing different percentage increases and the impact each of the increases would have on the budget. Beginning this school year (2007-2008) the Board also now formally approves all salary and benefits for all non-instructional staff at a regularly scheduled monthly Board meeting.

See  
Note 2  
Page 12

A recommendation to adopt adequate payroll policies and procedures to address all aspects of payroll processing, including procedures for entering or changing employee salary and benefit information has been accomplished. The recommendation to ensure that all salaries and benefits provided to employees are covered by the terms of District-wide policies, resolutions, employment contracts or collective bargaining agreements has also been accomplished. At the February 27, 2008 Board meeting the Board approved such policies and procedures.

**CLAIMS PROCESSING**

Since there are no deficiencies identified in the report the District has no response in this area.

Sincerely,  
Ella Collins *Ella Collins*  
Superintendent

## **APPENDIX B**

### **OSC COMMENTS ON THE DISTRICT'S RESPONSE**

#### Note 1

We modified our report to acknowledge that we found no indication that the nine non-instructional employees in our sample received inappropriate wages or benefits.

#### Note 2

As a result of District officials' clarification of the process they used to review and approve salary increases for non-instructional employees, we removed this sentence from our report.

## APPENDIX C

### AUDIT METHODOLOGY AND STANDARDS

Our overall goal was to assess the adequacy of the internal controls put in place by officials to safeguard District assets. To accomplish this, we performed an initial assessment of the internal controls so that we could design our audit to focus on those areas most at risk. Our initial assessment included evaluations of the following areas: financial oversight, information technology, 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. We then decided upon the reported objective and scope by selecting for audit those areas most at risk. We selected payroll and claims processing for further audit testing.

- We reviewed Board minutes for our audit period, the District's policy manual and the staff handbook for applicable policies and procedures.
- We interviewed Board members, pertinent District officials and employees.
- We reviewed collective bargaining agreements, individual employee contracts and annual salary notification letters.
- We reviewed salaries and benefits provided to eight employees and the exit payment made to the most recently retired District employee.
- We reviewed and tested a judgmental sample of 100 claim packages to determine if claims were properly documented, itemized, authorized and approved.

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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**AND SCHOOL ACCOUNTABILITY**

Steven J. Hancox, Deputy Comptroller  
John C. Traylor, Assistant Comptroller

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