



Herkimer-Fulton-Hamilton- Otsego Board of Cooperative Education Services Internal Controls Over Payroll

Report of Examination

Period Covered:

July 1, 2006 — June 30, 2007

2008M-27



Thomas P. DiNapoli

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State of New York Office of the State Comptroller

Division of Local Government and School Accountability

April 2008

Dear BOCES Officials:

A top priority of the Office of the State Comptroller is to help BOCES officials manage their districts 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 of Education 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 Herkimer-Fulton-Hamilton-Otsego Board of Cooperative Education Services, entitled Internal Controls Over Payroll. 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 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*

Introduction

Background

The Herkimer-Fulton-Hamilton-Otsego Board of Cooperative Educational Services (BOCES) is an association of 12 component school districts that serves over 1,000 students within a four county area. The BOCES is governed by the Board of Education (Board) which comprises nine members elected by the boards of education of the component school districts. The Board is responsible for the general management and control of the BOCES's financial and educational affairs. The District Superintendent is the Chief Executive Officer of the BOCES and is responsible, along with other administrative staff, for the day-to-day management of the BOCES and for regional educational planning and coordination. By law, the District Superintendent is an employee of both the appointing BOCES and the New York State Education Department. As such, the District Superintendent works under the direction of both the Board and the NYS Commissioner of Education.

The budgeted expenditures for the 2006-07 fiscal year were \$13.6 million, which were funded primarily by charges to component school districts for services, and Federal and State grants/aid. Approximately 250 professionals and support staff work at the BOCES campus, and school district classrooms and offices throughout the BOCES area. In addition, the BOCES employs other individuals in temporary positions such as consultants, workshop presenters and substitute staff. Payroll expenditures for the 2006-07 fiscal year totaled \$8.6 million.

Objective

The objective of our audit was to address the following question:

- Are internal controls over payroll appropriately designed and operating effectively to ensure payroll disbursements are made to authorized personnel at authorized pay rates/salaries?

Scope and Methodology

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, payroll and personal services, and information technology. 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 processing area and, therefore, we examined internal controls over payroll processing for the period July 1, 2006 to June 30, 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 BOCES
Officials**

The results of our audit have been discussed with BOCES officials and their comments, which appear in Appendix A, have been considered in preparing this report.

Internal Controls Over Payroll

Management is responsible for establishing a system of internal controls over payroll to ensure that disbursements are made to only authorized personnel and for only authorized amounts. A good system of internal control includes a proper segregation of duties, operating practices that provide for an effective review and verification of payroll transactions, and active management oversight. Management must not allow the same individual to perform the three key payroll duties of authorization (e.g., adding employees to the payroll), recordkeeping (e.g., entering transactions that affect gross pay) and asset custody (e.g., processing payroll, making online transactions and printing checks).

We reviewed key controls over the payroll process to determine if they were appropriately designed and operating effectively. We found that payroll duties were not properly segregated. Specifically, the payroll clerk was responsible for adding new employees to the payroll system, entering pay rates, processing payroll, making online transactions (direct deposits and withholdings transfers), and printing checks. These incompatible duties could allow the payroll clerk to initiate inappropriate transactions and conceal them. Due to this control weakness, we examined the personnel files, employment agreements and payroll records for 20 BOCES employees to ensure that they were bona fide employees and that the amounts paid were appropriate. We also examined the personnel files, employment agreements and payroll records for the payroll clerk, Executive Director of Business Operations, Treasurer and human resources clerk to ensure that their 2006-07 salaries were correct. We found no exceptions.

At the beginning of the 2007-08 fiscal year, management implemented corrective measures. Segregation of duties problems were eliminated by giving the responsibility for adding new employees and entering employee pay rates to the human resources clerk and the payroll clerk's computer access rights to perform these tasks were removed. Except for minor deficiencies, which we discussed with BOCES officials, the internal controls over payroll were determined to be adequate after the corrective measures were implemented.

APPENDIX A
RESPONSE FROM BOCES OFFICIALS

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



herkimer
BOCES

LEARNING FOR LIFE

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March 25, 2008

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Dear Ladies and Gentleman:

The Herkimer-Fulton-Hamilton-Otsego BOCES administration and Board of Education have received and reviewed the Draft Report of Examination from your office, covering the period July 1, 2006 through June 30, 2007. We are very pleased that there were no issues identified as in need of corrective action.

As you noted, the one incompatible duty at issue for the year audited was corrected the following fiscal year, prior to the commencement of the audit. We will be discussing the draft report in our April audit committee meeting.

Our BOCES is appreciative of the technical assistance offered by the audit team as well as their favorable comments in regard to our employees and our system of internal controls.

Sincerely,

William Miller
President, Board of Education

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 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, payroll and personal services, and information technology.

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's financial transactions as recorded in its databases. Further, we reviewed the BOCES'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 processing for further audit testing. Our review included the following:

- We tested the payroll records for 20 employees for accuracy by comparing payments to corresponding employment contracts, collective bargaining agreements and personnel files to verify appointment and pay rate/salary authorization.
- We verified the annual salaries of the payroll clerk, Executive Director of Business Operations, Treasurer and human resources clerk by reviewing corresponding employment contracts, collective bargaining agreements and personnel files.

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 objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

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