



Indian River Central School District Internal Controls Over Payments for Substitute Employees and Overtime

Report of Examination

Period Covered:

July 1, 2006 — June 30, 2007

2008M-79



Thomas P. DiNapoli

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State of New York Office of the State Comptroller

Division of Local Government and School Accountability

June 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 Indian River Central School District, entitled Internal Controls Over Payments for Substitute Employees and Overtime. 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 Indian River Central School District (District) is located in the Towns of Alexandria, Antwerp, LeRay, Orleans, Pamela, Philadelphia and Theresa in Jefferson County; the Town of Rossie in St Lawrence County; and the Fort Drum military base. The District is governed by the Board of Education (Board), which comprises 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 (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 are eight schools in operation within the District, with approximately 3,450 students and 575 full- and part-time employees. The District's expenditures for the 2006-07 fiscal year were \$51.2 million, funded primarily with State and Federal aid, real property taxes and grants.

The District regularly employs substitute teachers, tutors, aides, cafeteria workers, and nurses to cover for absences within its regular salaried workforce. Substitute employees are paid on a per diem or hourly basis for only the time that they work. During the 2006-07 fiscal year, the District paid 261 substitute employees gross wages totaling \$439,701. Regular full- and part-time District employees are paid biweekly salaries. Nonexempt employees¹ who work overtime are paid at an enhanced pay rate of time and one-half for overtime that exceeds 40 hours per week. During the 2006-07 fiscal year, the District paid 80 employees gross overtime earnings totaling \$105,204 based on the enhanced overtime rate. Part-time employees who work overtime in addition to their regular schedules are paid at their regular hourly rate for overtime, up to 40 hours per week. During the 2006-07 fiscal year, the District paid 45 part-time employees gross overtime earnings totaling \$20,721 based on their regular hourly rates.

Objective

The objective of our audit was to determine if internal controls over selected payroll expenditures are appropriately designed and operating effectively. Our audit addressed the following related question:

¹ Nonexempt employees must be paid for overtime. The Federal Fair Labor Standards Act and State laws categorize employees as either exempt or nonexempt from overtime regulations. The determination of exempt or nonexempt status is based primarily on the employee's level of responsibility or professional standing.

- Are internal controls over payments for time worked by substitute employees and overtime work 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, and 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 area and, therefore, we examined internal controls over payments for time worked by substitute employees and overtime work 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 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.

Internal Controls Over Selected Payroll Items

Internal controls over payroll expenditures for substitute employees and overtime work consist of policies and procedures for authorizing and recording these transactions and for preparing the payroll. They also include policies, collective bargaining agreements, and individual employment contracts setting forth specific terms of compensation for substitute employees and overtime work. An effective system of internal controls can provide District officials with assurance that substitute employees are properly paid for the time they work, that overtime payments are made in accordance with contract provisions, and that the underlying 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 losses.

District officials have established adequate procedures for authorizing, recording, and processing payments for time worked by substitute employees and for overtime work. Procedures include the following:

- Time worked by substitute employees and overtime worked by full-time and part-time employees is recorded daily at the departments/buildings and summarized on biweekly departmental/building time records.
- All overtime is approved in writing by department heads.
- Summary department/building time records are approved by both the immediate work supervisors and the department heads.
- The District's payroll clerk enters substitute work transactions and employee overtime into the payroll system from the approved summary department time records and then sends computer-generated departmental payroll reports back to the department heads and supervisors for verification. The signed reports are returned to the Business Office.
- The Superintendent receives final payroll registers, computer-generated payroll change reports, and the signed departmental payroll reports for review when certifying the biweekly payroll. The Business Manager also reviews the biweekly payroll documentation.

To determine whether the internal controls were operating as intended, we reviewed supporting documentation and calculations for payments to 23 substitute employees and overtime payments to 13 full-time and 4 part-time employees who were paid on the March 16, 2007 payroll. We verified that these payments were supported by required departmental records, that the summary departmental time records and payroll reports were signed by supervisors and department heads, that gross payroll calculations were accurate and in accordance with the terms of collective bargaining agreements, and that the payroll had been certified by the Superintendent.

We found no improper payments or significant errors. Overall, we found the system of controls over payroll expenditures for substitute employees and overtime work is well designed and operating effectively.

APPENDIX A

RESPONSE FROM DISTRICT OFFICIALS

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

Indian River Central School District

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May 27, 2008

Office of the State Comptroller
Syracuse Regional Office
State Office Building, Room 409
333 E. Washington Street
Syracuse, NY 13202

Dear [REDACTED]:

This letter is in response to the *Report of Examination, Indian River Central School District, Internal Controls Over Payments for Substitute Employees and Overtime*. The cited report was reviewed on May 27, 2008 with Mary Anne Dobmeier, Assistant Superintendent for Curriculum and Instruction; James R. Koch, District Business Manager; Lynn A. Waite, District Treasurer; and me. All members of the Indian River Central School District educational community appreciate the efforts of your staff in providing a thorough review of the District's financial operations.

The District takes the responsibility of proper internal controls seriously. However, to do so effectively, a team effort is required. Every employee has a role in making sure this happens. From the cashiers in the cafeteria, to the asset control specialist, to those making purchasing recommendations or performing maintenance, a general attitude exists that we have an obligation to do the right thing with the taxpayers' money. The Board's desire for accountability frees the clerks to question a host of issues that cross their desks. In this manner, everyone is involved.

I am pleased with your findings and opinion that an adequate system of controls exists and is operating effectively in the area of payroll expenditures for substitute employees and for overtime disbursements. The accounting, clerical and payroll staff pay particular attention to detail, and the results are evident in your findings. I assure you that the entire District and its taxpayers will be pleased with these findings.

Thank you for your continuing efforts to ensure proper stewardship of public funds.

Very truly yours,



James Kettrick
Superintendent of Schools

District Office - 642-3441 High School - 642-3427 Middle School - 642-0125 Intermediate School - 642-0405
Antwerp Primary - 659-8386 Calcium Primary - 629-1100 Evans Mills Primary - 629-4331
Philadelphia Primary - 642-3432 Theresa Primary - 628-4432 District Pupil Personnel Services - 642-0100
Transportation - 642-0331 Buildings & Grounds - 642-0338 Food Services - 642-3441

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, payroll and personal services, and information technology.

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 disbursements for regular time worked by substitute employees and overtime work for further audit testing.

To determine the effectiveness of internal controls, we reviewed and assessed relevant District policies and procedures and interviewed officials and staff concerning their roles and responsibilities. We also reviewed computer-generated payroll reports, employee personnel records, collective bargaining agreements, and departmental time sheets, work records, and reports.

To determine whether the internal controls were operating as intended, we reviewed supporting documentation and calculations for payments to 23 substitute employees and overtime payments to 13 full-time and 4 part-time employees who were paid on the March 16, 2007 payroll. We verified that these payments were supported by required departmental records, that the summary departmental time records and payroll reports were signed by supervisors and department heads, that gross payroll calculations were accurate and in accordance with the terms of collective bargaining agreements, and that the payroll had been certified by the Superintendent.

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 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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AND SCHOOL ACCOUNTABILITY

Steven J. Hancox, Deputy Comptroller
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