



Port Jefferson Union Free School District Internal Controls Over Payroll

Report of Examination

Period Covered:

July 1, 2006 — October 31, 2007

2008M-97



Thomas P. DiNapoli

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State of New York Office of the State Comptroller

Division of Local Government and School Accountability

July 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 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 Port Jefferson Union Free School District, 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 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 Port Jefferson Union Free School District (District) is located in the Town of Brookhaven, Suffolk 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 are three schools in operation within the District, with approximately 1,300 students and about 300 full-time and part-time employees. The District's budgeted expenditures for the 2006-07 fiscal year were \$30.9 million, funded primarily with real property taxes, State aid, and grants. Total payroll costs were \$16.1 million during the 2006-07 fiscal year, representing 52 percent of the total expenditures of almost \$31 million. The Board approves new hires and establishes wages, salaries and benefits for employees by resolutions, negotiated contracts and collective bargaining agreements.

Objective

The objective of our audit was to determine if controls over payroll were appropriately designed and operating effectively for the period July 1, 2006 to October 31, 2007. Our audit addressed the following related question:

- Did District management implement processes or procedures adequate to decrease the risk of errors or irregularities in the payroll process?

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. 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 decided to concentrate our efforts in the area of payroll and, therefore, we examined internal controls in this area for the period July 1, 2006 to October 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.

Payroll

Salaries, wages and employee benefit costs comprise the most significant portion of the District's budget. Internal controls over payroll consist of written policies and procedures that describe employee responsibilities in preparing and disbursing payroll, as well as written Board authorization for salaries, wages and fringe benefits. Certain controls are designed to prevent payroll errors and irregularities from occurring, while other controls serve to detect payroll errors and irregularities in a timely manner. Two important components of an internal control system, proper segregation of duties and management oversight, can include both preventive and detective control procedures that help ensure employees are paid the compensation they are entitled to receive.

Proper segregation of duties is a key internal control that reduces the risk of errors, fraud, and professional misconduct. Management can segregate duties by assigning the applicable payroll functions to multiple employees so that no one employee performs all aspects of payroll. Since optimal segregation of duties may not always be practicable, mitigating controls are additional procedures that limit risks associated with the inadequate segregation of duties. Mitigating controls could include having a District management official, or someone else independent of the payroll preparation process, perform a review of the completed payrolls.

We found that District management implemented adequate procedures to decrease the risk of errors and irregularities in the payroll process. While District officials do not have optimal segregation of duties in payroll processing, they have established mitigating controls to limit the risk associated with conflicting duties. A clerk in the Business Office adds new employees to the payroll computer system, while the payroll clerk performs all other aspects of processing the payroll, such as entering changes in salary and hours from timesheets and maintaining leave accrual records. Because the payroll clerk performs all these functions, the District has implemented procedures to oversee her work. The Business Manager, who maintains an electronic spreadsheet with approved salary changes, reconciles her spreadsheet to a computer printout from the accounting software program after the payroll clerk has updated the salaries in the payroll system. Additionally, the Business Manager and the Assistant Superintendent for Business are both trained to process the payroll. According to recently implemented procedures, the Business Manager will process the payroll twice a year to maintain up-to-date knowledge of payroll processing procedures.

The Board also requires the claims auditor to certify the payroll. During the certification process, the claims auditor reviews the printed payroll checks, along with signature lists which employees sign when they receive their pay checks. The claims auditor then verifies the pay checks that are directly deposited to the employees' bank accounts. Finally, he selects 20 employees and verifies their salaries to Board resolutions, contracts, and timesheets, if applicable.

We reviewed payroll related payments to all 300 employees for reasonableness. We selected eight employees (three instructional and five non-instructional) and tested for completeness of personnel folders and concurrence with their respective contracts. Our tests showed that the Business Office maintains the required employees' documentation and employees were paid in accordance with their respective salary agreements, collective bargaining agreements, and Board resolutions. Except for a minor error, the tests showed that the District has properly accounted for leave accruals. We selected 12 additional employees, and tested overtime payments to determine if overtime was authorized and payments were appropriate. Our tests revealed no exceptions.

We commend the District on recognizing the weaknesses in segregation of duties over payroll processing and for taking appropriate steps to mitigate those weaknesses.

APPENDIX A

RESPONSE FROM DISTRICT OFFICIALS

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



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Colleen Lipponer, CPA
Assistant Superintendent for Business

June 23, 2008

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RE: Port Jefferson UFSD
Business Office
Report of Examination
Period Covered: July 1, 2006 - October 31, 2007
2008M-97

To Whom It May Concern:

This letter serves as our official response to the Comptrollers Report of Examination, 2008M-97, to be included in the final audit document.

It has always been an essential goal of the District to ensure that controls are in place to safeguard district assets and taxpayer dollars. It was most pleasing to see that our efforts in this endeavor were recognized and positively commented on in the report.

On behalf of the Port Jefferson School District, I would like to thank the audit team. Their professionalism and the manner in which the audit was conducted was very much appreciated.

Very truly yours,

A handwritten signature in cursive script that reads "Colleen Lipponer".

Colleen Lipponer, CPA
Assistant Superintendent for Business

cc: Maria Rianna, Interim Superintendent

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 that area most at risk. We selected payroll for further audit testing.

To accomplish the objective of this audit and obtain valid audit evidence, our procedures included the following steps:

- We reviewed pertinent documents, including the minutes of the Board's proceedings and the District's policies and procedures.
- We reviewed the various contractual bargaining agreements, and personal employment contracts.
- We interviewed key personnel in order to determine the process for hiring non-instructional employees and how benefits were granted to these employees.
- We reviewed the District's payroll records for accuracy and approvals.
- We examined employees' personnel folders for completeness.
- We examined employees' leave accrual records for accuracy.

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 objective.

APPENDIX C

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AND SCHOOL ACCOUNTABILITY

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

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