



Salamanca City School District Internal Controls Over Selected Financial Operations

Report of Examination

Period Covered:

July 1, 2006 — September 27, 2007

2007M-305



Thomas P. DiNapoli

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State of New York Office of the State Comptroller

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 Salamanca City School District, entitled Internal Controls Over Selected Financial Operations. 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 Salamanca City School District (District) is located in the City of Salamanca and the Towns of Salamanca, Little Valley, Great Valley, Napoli and Carrollton, Cattaraugus 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 four schools in operation within the District, with approximately 1,470 students and 305 employees. The District's budgeted expenditures for the 2007-08 fiscal year are approximately \$23.9 million, funded primarily with State aid, real property taxes and grants.

Objective

The objective of our audit was to assess internal controls over leave time usage and selected employment and post-employment benefits. Our audit addressed the following related questions:

- Are leave usage records and related payments accurate, supported and properly authorized?
- Are selected employment and post-employment benefit payments accurate, supported and properly authorized?

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, 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 and personal services areas and therefore, we examined internal controls over leave time usage and selected employment and post-employment benefits for the period July 1, 2006 through September 27, 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 are taking 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*.

Leave Time Usage

Leave accruals represent time off earned by employees. A good leave accrual system must have supervisory oversight to ensure that leave use is authorized and approved. An employee's accumulation and use of leave time is stipulated by the particular labor contract negotiated for that employee.

District officials must ensure that leave time accruals, usage and recorded balances are accurate, supported and properly authorized. Computerized records of leave time accrued and used must agree with the original authorizing time record. Access to these records must be limited and appropriate monitoring procedures implemented. Standardized time records must be approved by the employee's supervisor. The accrual and use of leave time must also comply with contractual provisions. Written policies and procedures must also be in place to ensure compliance with contractual provisions concerning leave usage records.

During our audit, we determined that the Information Technology Manager changed the computer records to decrease the amount of vacation days he had remaining. This change was not approved and administered through the normal leave time recording process. These changes relate to six days of unrecorded leave time. Pursuant to an informal understanding, which is not included in the applicable contracts, certain employees accrue informal compensatory time. It appears that he changed the records in an attempt to record his use of leave time before our audit was completed instead of using informal compensatory time. While this employee did not benefit directly from this action, his ability to make unauthorized changes to his leave records, and possibly others, without detection, was a significant concern to us. Consequently, we conducted a more extensive review of leave accrual usage and recording.

Generally, leave accruals, usage and balances, as reported in the accounting system, were in agreement with the original source documents. However, notwithstanding the general accuracy of these records, we noted weaknesses in internal controls that need to be addressed. We found that the District had no formal written procedures in place to provide District managers with direction on the types of documentation required to ensure that leave usage and the recording of leave are appropriate and accurate. The absence of such written procedures resulted in inconsistent documentation and approval methods throughout the District.

We also noted that controls and processes generally were not adequate to ensure proper approval of leave time usage and recording of leave time balances. Leave time is initially approved by department heads, building principals or assistant principals. Leave time records exist in many forms (e-mails, paper copies, etc.) depending on the department. Leave information is transmitted to the payroll clerk for processing. The payroll clerk is responsible for computing and tracking most leave time and related fringe benefit calculations. She initially posts leave time usage manually in a paper record and subsequently uses that information to post to a computer record.

Due to the lack of written guidelines regarding leave time recording and inconsistent recordkeeping and supervisory approval documentation, we tested leave time transactions and found the following:

- Twenty-eight of 87 tested leave time entries were not recorded on time sheets. The majority of the entries were for management and administrative staff that do not use time sheets. In addition, of the remaining 59 entries that were supported by time sheets, 36 had no indication of supervisory approval.
- Three of the same 87 leave time entries were recorded in the computerized leave time records but were not recorded in the manually-prepared paper record of leave time.
- One of 56 paper-record leave time entries for five specific tested dates was not posted to the computer record.
- No discrepancies in vacation leave time accruals recorded in the computerized records for the 2007-08 fiscal year for six tested employees against contractual¹ provisions and start dates.
- Nine of 55 leave time computer entries for five specific tested dates were not supported by any original time sheet document.

The lack of clear guidelines in the form of written procedures could result in unrecorded leave usage.

Recommendations

1. District officials should limit access to its information technology system and establish monitoring procedures to ensure that those

¹ All contracts did not provide for a vacation benefit.

employees with access to computerized records do not make unauthorized changes.

2. District officials should develop clear written procedures to ensure that District staff are aware of leave record keeping and supervisory approval documentation requirements. The procedures contained in such a policy should include the requirement that a standardized time sheet be developed and used for all leave time (including worked time and non-worked time) for all employees.
3. Supervisors should appropriately sign all time records.

Selected Employment and Post-Employment Benefits

District officials must ensure that employment and post-employment benefit payments are accurate, comply with contract provisions, are supported by source documents, and are properly authorized and approved. District-wide policies, collective bargaining agreements and/or individual employee contracts must clearly stipulate employees' compensation, entitlements to the accrual, use and payment of leave time and any other benefits provided. Payments associated with these employment benefits must occur only when authorized by Board-approved policies, agreements or contracts, or by Board resolution.

Benefits which we reviewed included: retirement incentives (to be used for health insurance or invested in a tax-sheltered annuity (TSA)), conversion of unused leave to a health insurance credit, and payments in lieu of health insurance coverage. Generally we found that payments for these purposes were in compliance with contract terms and accurately calculated.

Retirement Incentives – Retirement incentives were provided in the contracts for teachers and Business Office staff. Teachers are provided with a \$25,000 payment, and teaching assistants a \$12,500 payment, if they elect to retire between July 1, 2005 and June 30, 2009. Certain Business Office staff are also provided with additional incentive payments. Employees on staff as of June 30, 2004 will receive \$40,000 if they have 15 years of service, or \$50,000 if they have 20 years of service.

We reviewed nine individual payments totaling \$42,875 for retirement incentives invested in a TSA and found that the payments agreed with contract provisions.

Leave Time Conversion – Employees are generally covered by one of the District's four collective bargaining agreements² or by individual employment agreements. They may earn up to 12 days sick leave per year, three days personal leave and up to four weeks vacation leave, depending on the contract and years of service.

Unused sick and personal leave may be converted to other benefits either at retirement or annually, depending on the contract. Limited unused personal time may be converted to sick leave before these

² Salamanca Administrative and Supervisory Association, Salamanca Teachers Association, Consolidated Services Unit and the Salamanca Service Staff Organization

days are used to calculate additional benefits. Up to 260 sick days can be converted at retirement at rates ranging from \$60 to \$100 per day, depending upon the contract. For instance, the Teacher's contract provides that teachers may convert up to 200 days at \$70 per day, at retirement, which must be used as a credit to retiree health insurance costs. Business Office staff may convert up to 260 days at \$100 per day to be used to fund retiree health insurance. They may also annually convert sick days in excess of a balance of 20 to an amount to be used for a TSA.

We reviewed credits earned during our audit period for seven employees totaling \$91,865 and found that all of these amounts agreed with contractual provisions.

Payments in Lieu of Health Insurance – All District contracts provide for some form of payment in lieu of health insurance. Generally, the employee must certify that he or she elects to receive the payment. Individual annual payments range from \$1,000 to \$8,883. During the 2006-07 fiscal year the District paid more than \$189,000 to its employees that elected to receive this employment benefit.

We reviewed payments for 13 employees totaling \$42,766 and found that all payments were accurate.

For each of the areas reviewed, we identified certain procedural steps that were not always followed. These were relatively minor deficiencies primarily dealing with maintaining proper documentation. As such, we have conveyed the specifics of these issues to District management verbally.

APPENDIX A

RESPONSE FROM DISTRICT OFFICIALS

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



SALAMANCA CITY CENTRAL SCHOOL DISTRICT
50 Iroquois Drive
Salamanca, New York 14779

District Office 716/945-2403
High School 716/945-2404
Middle School 716/945-2405

Prospect Elementary 945-5170
Seneca Elementary 945-5140
Alternative Education Program 945-6922

Curriculum & Instruction 945-5182
Pupil Services 945-5142
Even Start 945-3641

March 5, 2008

████████████████████
Office of the State Comptroller
Division of Local Government and School Accountability
295 Main Street – Ellicott Square Building Room 1050
Buffalo, NY 14203

Dear ██████████:

In reference to your Audit of the Salamanca City Central School District, conducted pursuant to the authority vested in the State Comptroller by Article 3 of the General Municipal Law, we are responding to your recommendations as follows:

- 1. District officials should limit access to its information technology system and establish monitoring procedures to ensure that those employees with access to computerized records do not make unauthorized changes.*

On July 24, 2007, Erie 1 BOCES began an audit of the District's Information Technology system. One of the recommendations of this audit is for the District to hire an additional full-time technician that would then give the District three network technicians with the responsibilities of each to be limited to specific areas. Two of the three technicians would have cross-training in the same area but all three would have distinct and separate responsibilities for the three aspects of our information technology system. This would prohibit any one technician having total access to all systems within our network. The checks and balance on this procedure would be done by a senior Erie 1 technician that we have not utilized to the extent possible within the IT system contract we currently have with Erie 1 BOCES.

At this time we are budgeting for an additional technician in the 2008-09 school year budget. We have asked the Erie 1 senior technician to monitor our two current technicians as well as their access to the IT system. I have not had any conflicting reports from the senior technician in regard to people being in unauthorized areas or making changes within our system. This will continue to be developed, implemented, and monitored as the additional technician is brought on board with a separation of duties.

The completed Technology Audit Report was presented to the Board of Education on Tuesday, November 27, 2007 by the Erie 1 BOCES WNYRIC Director.

"A Community Connected Through Education"



2. *District officials should develop clear written procedures to ensure that District staff is aware of leave record keeping and supervisory approval documentation requirements. The procedures contained in such a policy should include the requirement that a standardized time sheet be developed and used for all leave time (including worked time and non-worked time) for all employees.*

The District is meeting with administrators and representatives of the various bargaining units to begin the process of creating written procedures that will be followed and tracked both for leave time taken and days worked. While terms and conditions of employment are generally covered under bargaining agreements, many of these items will be impacted and require future negotiations to finalize.

As the process occurs, the District will implement the requirement for all employees to complete a leave time request form that was used at one time to account for sick, personal, and vacation days used. The District at this time does not have a software program that would allow for electronic accounting of leave time and days worked for salaried employees.

The District will look into the possibility of software that could be installed on the network that would allow employees to record both time worked and leave time used in an electronic format with the proper signatures from supervisors and administrators for their respective personnel. While a basic leave form would only require a printing cost, an electronic software program would have a financial impact on the District and may take a future budget year to accommodate.

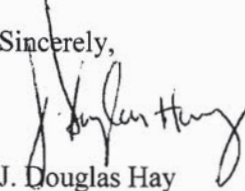
Clear written procedures will be developed, implemented, and followed to account for all employees' leave time, time away from the job, and time worked.

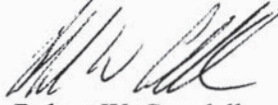
3. *Supervisors should appropriately sign all time records.*

In developing our written procedures for leave time and for time worked, Supervisors will sign all time records for those employees that are within their responsibility.

We further understand that as soon as this Audit becomes public, the Board of Education must approve a Corrective Action Plan within ninety (90) days that addresses the findings of this report and submit such Plan to your office, the Commissioner of Education, and make the Plan available for public review in the District Clerk's office.

Sincerely,


J. Douglas Hay
Superintendent of Schools


Robert W. Crandall
Board of Education President

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 leave time and selected employment and post-employment benefits for further audit testing.

- We reviewed annual accruals for vacation time for six of 30 eligible employees to determine compliance with the contract relating to accruals based on date of hire.
- We traced leave-time entries from the payroll source document for five specific dates to computer attendance records.
- We traced paper record leave-time entries to computer attendance records for five specific dates.
- We traced computer attendance records to original source documents for five specific dates.
- We reviewed leave-time original source documents for appropriate approval signatures.
- We reviewed computer activity audit logs to determine authorization and tracking of changes to leave records.
- We tested the documentation of retirement incentive decisions by employees, and reviewed Business Department approval of retirement incentive payments.
- We recomputed conversion of unused sick leave at retirement based on contract terms and computerized leave records.

- We tested whether leave time conversions were reviewed and approved prior to payment.

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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