



Saratoga Springs City School District Internal Controls Over Payroll

Report of Examination

Period Covered:

July 1, 2005 — September 30, 2007

2007M-286



Thomas P. DiNapoli

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State of New York Office of the State Comptroller

Division of Local Government and School Accountability

February 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 Saratoga Springs City 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 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 Saratoga Springs City School District (District) encompasses the City of Saratoga Springs and portions of the Towns of Greenfield, Malta, Milton, Saratoga, and Wilton in Saratoga County. 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 7,000 students and 1,100 employees. The District's budgeted expenditures for the 2005-06 fiscal year were approximately \$96.2 million, which were funded primarily with State aid, real property taxes, and grants.

Objective

The objective of our audit was to evaluate internal controls over payroll. Our audit addressed the following related question:

- Are internal controls over payroll 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, information technology, and payroll and personnel 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 did determine that risk existed in the payroll area and, therefore, we examined internal controls over payroll for the period July 1, 2005 to September 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 and recommendations have been discussed with District officials and their comments, which appear in Appendix A, have been considered in preparing this report.

Internal Controls Over Payroll

Internal controls over payroll include policies and procedures that describe employee responsibilities in preparing and disbursing payroll, and the written Board authorization requirements for salaries, wages and fringe benefits. An effective system of internal controls can provide the Board with assurance that employees are paid and provided benefits in accordance with contract provisions, and that 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 loss or improper use.

We reviewed payroll policies, procedures and records, and interviewed and observed District officials and employees to learn about the procedures and controls for processing payroll. We found:

- Salaries and benefits are governed by collective bargaining agreements or individual employment contracts. New hires, resignations, retirements, salary adjustments and contract amendments are approved by the Board.
- Upon receipt of written authorization from the Board, the payroll clerks enter information on new hires, terminations, and salary changes into the District's computerized payroll system. The clerks periodically rotate their day-to-day duties and the processing of payrolls among themselves, helping to enhance the segregation of various payroll-related duties between the clerks.
- A payroll clerk performs a comprehensive review of time records submitted from each of the school buildings to ensure the records are accurate and calculated correctly. A second payroll clerk performs the same review and enters the information into the payroll system.
- The Assistant Superintendent for Business performs a thorough review of various payroll reports prepared by the payroll clerks prior to certifying each payroll. After the payrolls are certified, an account clerk from the Business Office prepares the payroll checks for distribution.

We reviewed all collective bargaining agreements and individual employee contracts covering our audit period to ensure salary

payments and benefits were properly authorized and in accordance with the agreements. We reviewed 2006-07 salaries for 20 employees to ensure payments were calculated correctly, and verified that leave time records for 22 employees were accurate. We also performed tests to determine whether separation payments to 25 employees, health insurance “buy-out payments” to 15 employees, and health/dental insurance contributions for 10 employees were made in accordance with applicable collective bargaining agreements or employment contracts. Except for some minor issues, which we addressed with District officials, we did not identify any significant deficiencies in either the payroll records or the payroll processes we examined. The District’s system of controls over the payroll process were designed appropriately and working effectively.

APPENDIX A

RESPONSE FROM DISTRICT OFFICIALS

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

SARATOGA SPRINGS CITY SCHOOLS

3 BLUE STREAK BOULEVARD
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Assistant Superintendent for Business

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February 15, 2008

Office of the State Comptroller
Glens Falls Regional Office
One Broad Street Plaza
Glens Falls, NY 12801
Attn: [REDACTED]

**Re: District Response to preliminary draft audit findings concerning
Saratoga Springs City School District –Internal Controls over Payroll
Period July 1, 2005 to September 30, 2007**

Dear [REDACTED]

This letter is written to provide the district's official response to the audit recently conducted at the Saratoga Springs City School District.

The audit covers the period July 1, 2005 to September 30, 2007, and initially assessed internal controls in the areas of financial oversight, cash receipts and disbursements, purchasing, information technology, and payroll and personnel services. Internal controls over payroll were selected as the primary area for audit work. The process culminated in a no-findings report that was reviewed with the district's audit committee on February 11, 2008. No corrective action was recommended.

The Board of Education and the administration of the Saratoga Springs City School District take the management of public funds and the establishment and maintenance of fiscal controls very seriously.

Please feel free to contact me if you need any additional information, or if I can be of any further help to you.

Sincerely,



Kurt Jaeger
Assistant Superintendent for Business

c: Janice White
Board Audit Committee
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 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, information technology, and payroll and personnel 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 those areas most at risk. We selected payroll for further audit testing. To accomplish the objective of the audit and obtain valid audit evidence, we examined records and reports from July 1, 2005 to September 30, 2007.

Our review of payroll included the following:

- We reviewed policies, procedures and records pertaining to payroll.
- We interviewed and observed District officials and employees to learn about procedures used to process payrolls.
- We reviewed all collective bargaining agreements, individual employee contracts, payments and benefits to ensure payments and benefits were properly authorized.
- We reviewed and tested 20 employees' 2006-07 salaries to ensure all payments were legitimate and calculated correctly.
- We reviewed and tested 22 employees' leave time records for accuracy.
- We reviewed separation payments to 25 employees who retired or resigned during our audit period.
- We reviewed and tested payments made to 15 employees who received a buyout for not participating in the District's health insurance plans.

- We tested a sample of 10 employees participating in the health and/or dental plans to ensure the amounts the employees were contributing toward the cost of their insurance coverage were in agreement with collective bargaining agreements or employment contracts.

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.

APPENDIX C

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Steven J. Hancox, Deputy Comptroller
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