



Plattsburgh City School District

Internal Controls Over Payroll

Report of Examination

Period Covered:

July 1, 2011 — December 31, 2012

2013M-74



Thomas P. DiNapoli

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State of New York Office of the State Comptroller

Division of Local Government and School Accountability

May 2013

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 Plattsburgh 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 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 Plattsburgh City School District (District) is located in the City of Plattsburgh, Clinton 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 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 five schools in operation within the District, with approximately 1,830 students and 375 employees. The District's budgeted appropriations for the 2012-13 fiscal year were approximately \$38 million, which were funded primarily with State aid, real property taxes, and grants. Payroll and associated employee benefit costs represent a significant portion of the District's annual expenditures; for the 2011-12 fiscal year these costs totaled approximately \$28 million¹ or 78 percent of the total general fund's expenditures.²

Objective

The objective of our audit was to determine if the District had established effective internal controls over payroll. More specifically, 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, 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 payroll for the period July 1, 2011, to December 31, 2012.

¹ The total is a combination of \$18,571,717 in salaries and \$9,412,144 in employee benefits such as healthcare and pension costs.

² The 2011-12 expenditures were \$36 million.

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 is 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.

Payroll

The Board is responsible for designing a system of internal controls over payroll which, together with fringe benefits, represent a large portion of a school district's annual budget. Internal controls consist of written Board authorization for salaries, wages, and fringe benefits. District-wide policies, collective bargaining agreements, and/or individual employee contracts must stipulate each employee's entitlement to the accrual and use of leave time. Controls also can provide assurance that employees are paid and provided benefits in accordance with contract provisions, and that transactions are appropriately recorded and authorized by management. In addition, controls include having both effective managerial oversight and a proper segregation of duties. Where practicable, duties should be separated so that one employee does not control all phases of the payroll process. In a small operation where complete segregation of duties is not possible, active supervision and oversight become even more important. Failure to establish and adhere to a sound system of internal controls increases the risk that fraud, abuse, or errors may occur and go undetected and uncorrected.

We found that the District established adequate internal controls over payroll and personal services. District officials implemented specific procedures to ensure that individuals reported and paid on the payrolls were bona fide employees and, as such, were paid at their approved salaries and wages, and that they received only the benefits to which they were entitled. We also determined that the various control procedures over the payroll process that the District had established included adequate supervision and oversight.

The Board approves the hiring of all new employees and accepts all resignations and retirements before any changes to payroll are made. The District Clerk records all salaries and wages, along with employee resignations and retirements and their effective dates in the Board minutes. The payroll clerk enters all new employee information into the payroll system and inactivates payments to employees who resign or retire and, in both cases, the District Treasurer reviews for accuracy. Department heads review and approve all timesheets and leave requests and the Associate Superintendent reviews and certifies the payrolls. In addition, the accounts payable clerk reviews wire transfer amounts³ listed on the payroll report and compares the amount with the wire transfer confirmation sheet received from the bank. The Associate Superintendent also signs off on all wire transfers. In

³ Wire transfers are for items such as union dues, Federal and State taxes, and 403(b) contributions.

addition to establishing procedures that provide for strong internal controls, the District also performs an annual unannounced payroll payout in which all employees are required to sign for their paychecks and show proper identification in order to verify that only District employees are receiving paychecks.

We tested payroll registers, timesheets, employees' earning records, and leave records to determine if officers and employees were paid and received benefits according to their respective employment or collective bargaining agreements. We examined the payroll records of 20 employees with gross pay totaling \$32,836 from the May 11, 2012, payroll and 20 employees with gross pay totaling \$27,098 from the October 11, 2012, payroll to ensure that both salaried and hourly employees were paid at their approved pay rates and for the correct number of hours worked, and that a designated officer certified the payrolls. We also reviewed a judgmental sample of the 10 employees with the highest annual gross salaries for the 2011-12 fiscal year, which collectively totaled \$1,007,642, and the five employees with the highest balloon payments,⁴ collectively totaling \$85,391 in the 2011-12 fiscal year, and traced the amounts paid to employee salary notices and union contracts to ensure the salaries were paid in accordance with the contracts and that the balloon calculations were accurate. Lastly, we examined 20 timesheets submitted by employees from various departments for the May 11, 2012, and October 11, 2012, payrolls and determined the timesheets were approved by the respective department heads and were calculated correctly. We found no exceptions during our testing.

Finally, we examined 20 timesheets that were both signed by the employees and their supervisors indicating leave time was taken. We traced this back to the approved leave request forms (when required)⁵ and to the leave accrual report managed by the payroll clerk to ensure the correct leave type⁶ and hours were deducted from the employees' leave accruals. In each instance, District officials properly approved and recorded leave usage.

Establishing and adhering to a sound system of internal controls decreases the risk that fraud, abuse, or errors may occur and go undetected and uncorrected.

⁴ Balloon Payment — A lump sum payment an employee receives at the end of the school year in exchange for receiving a reduced amount of their annual salary in their bi-weekly paychecks throughout the school year.

⁵ Approved leave request forms are only required for vacation and personal leave taken; they are not required for sick leave or family sick leave. Sick leave and family sick leave are documented on the employee timesheets.

⁶ Vacation, sick, and personal leave

APPENDIX A

RESPONSE FROM DISTRICT OFFICIALS

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

Plattsburgh City School District

49 BROAD STREET
PLATTSBURGH•NY•12901-3396
518-957-6000 (Office)
518-561-6605 (Fax)
www.plattscsd.org

James M. Short
Superintendent of Schools
518-957-6002
jshort@plattscsd.org

Jay C. Lebrun
Associate Superintendent
518-957-6003
jlebrun@plattscsd.org

April 29, 2013

[REDACTED]
NYS Office of the State Comptroller
Division of Local Government and School Accountability
One Broad Street Plaza
Glens Falls, NY 12801

Dear [REDACTED]

This letter will serve as the District's formal response to the Report of Examination 2013M-74. As there were no findings, there is no need for corrective action, so these comments will instead focus upon the process. The Office of the State Comptroller (OSC) Field Auditors were, once again, thorough, professional, and pleasant. Though Plattsburgh City School District's current fiscal controls are clearly already sound, we nonetheless derived important knowledge and growth from our conversations with [REDACTED] and [REDACTED] which will benefit the District as we move forward.

The achieving of a 'clean' audit is very rare, and we are delighted that our ongoing efforts have resulted in such. We had hoped for a similar result in District's 2008 OSC audit, and though that report was generally excellent, there were small findings (password change frequency and inadequate lock on server closet) which the District addressed. The Plattsburgh CSD Board of Education recognized the importance of fiscal accountability and strong internal controls very early on, and commissioned an independent controls audit even prior to the inception of the Five-Point School Financial Accountability Plan (Chapter 263, Laws of 2005). This commitment to strong internal controls has carried forward, and the results of such are evident in the District's various audits.

Finally, primary credit for this rare and notable achievement should lie with my colleagues in the Business Office. Each works diligently on behalf of the Board of Education and the residents of the City of Plattsburgh, and I am pleased that their tremendous efforts and dedication have been recognized with this audit – which I understand to be the first 'no finding' report in the Northeastern territory of the State.

Once more, we appreciate the professionalism and collegiality of [REDACTED] and [REDACTED] and we are exceedingly proud of this result.

On behalf of the Plattsburgh City School District,

Jay Lebrun
Associate Superintendent

– MISSION –

Our mission is to educate each student of the Plattsburgh City School District by creating challenging, supportive, and interactive learning that advances intellectual, physical, social, and cultural development.

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 on the reported objective and scope by selecting for audit those areas most at risk. We selected payroll and personnel services for further audit testing.

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.

During the audit, we examined the payroll records and reports for the period July 1, 2011, to December 31, 2012. To accomplish the objective of the audit and obtain valid audit evidence, our procedures included the following steps:

- We interviewed and observed appropriate District officials and employees to learn about the procedures used to process payrolls.
- We reviewed Minutes of the proceedings of the Board.
- We reviewed collective bargaining agreements and individual employee contracts for our audit period to ensure salary payments were properly authorized and in accordance with the agreements.
- We reviewed all pertinent payroll records.

- We tested the records of the employees with the 10 highest grossing salaries based on the ACL data to determine if their gross salaries were paid in accordance with Board-approved contracts.
- We judgmentally selected the employees with the five highest balloon payments based on the ACL data for fiscal year 2011-12 to determine if the payments were calculated correctly.
- We selected one payroll period from fiscal year 2011-12 and one payroll period from fiscal year 2012-13 using a random number generator. From each payroll selected, we randomly selected 20 employees to determine if all payments were legitimate and calculated correctly and were paid in accordance with Board-approved rates.
- We judgmentally selected every tenth timesheet from the May 11, 2012, and October 11, 2012, payroll files for a total of 20 timesheets to verify that the timesheets were approved by the appropriate department supervisor and were accurately calculated.
- We judgmentally selected every tenth timesheet from the May 11, 2012, and October 11, 2012, payroll files for a total of 20 timesheets and traced the leave time taken to the Absence Verification Report to verify leave-time records for accuracy.
- We reviewed documents pertaining to the annual payout the District performs to ensure individuals reported and paid on the payrolls were bona fide employees.

APPENDIX C

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AND SCHOOL ACCOUNTABILITY

Andrew A. SanFilippo, Executive Deputy Comptroller
Nathalie N. Carey, Assistant Comptroller

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