



Whitehall Central School District Internal Controls Over Payroll

Report of Examination

Period Covered:

July 1, 2011 — March 31, 2013

2013M-159



Thomas P. DiNapoli

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State of New York Office of the State Comptroller

Division of Local Government and School Accountability

August 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 Whitehall Central 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 Whitehall Central School District (District) is located in the Towns of Dresden, Fort Ann, Granville, Hampton, and Whitehall in Washington County. The District is governed by a 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 District's chief executive officer 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 two schools in operation within the District, with approximately 725 students and 190 employees. The District's budgeted appropriations for the 2012-13 fiscal year were approximately \$13.2 million, which were funded primarily with State aid, real property taxes, and grants. Payroll and employee benefits represent a significant portion of the District's budget. These costs totaled approximately \$10.6 million¹ in the 2012-13 budget.

Objective

The objective of our audit was to determine if the District had established effective 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, 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 did determine that risk existed in the payroll area and, therefore, we examined internal controls over payroll for the period July 1, 2011, to March 31, 2013.

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.

¹ The total is a combination of \$6,561,090 in salaries and \$4,007,748 in employee benefits (e.g., health insurance and pension costs).

**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. District officials agreed with our findings.

Payroll

The Board is responsible for designing a system of internal controls over payroll. Internal controls over payroll 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 salaries, wages, and fringe benefits. An effective system of internal controls 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. A good system of internal controls over payroll would also include effective managerial oversight and the proper segregation of duties. Where practicable, duties should be separated so that one employee does not control all phases of the payroll process. When complete segregation of duties is not possible, active supervision and oversight become even more important components of an effective internal control system. 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.

As with all school districts, payroll and fringe benefits represent a large portion of the District's annual budget. Salaries and wages, including overtime and employee benefit costs, totaled approximately \$10.6 million or 80 percent of the District's budgeted appropriations for the 2012-13 fiscal year. The significant costs involved highlight the importance of good internal controls in this area.

We found the District established adequate internal controls over payroll. District officials implemented specific procedures to ensure that individuals were paid at their approved salaries and wages and received only the benefits to which they were entitled. We also determined that the various control procedures that the District had established over the payroll process provided 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 employee salaries, wages, resignations, and retirements, with 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. The Business Manager reviews the changes made by the payroll clerk for accuracy. Department heads review and approve all time sheets²

² All non-instructional employees use a time clock.

and leave requests. In addition, the District Treasurer compares the time sheets to the payroll report to ensure the information is accurate. The Business Manager then reviews the payroll report for accuracy and lastly, the Superintendent reviews and certifies the payroll.

Salaries – The Board must clearly define and authorize employees’ salaries to ensure employees are paid what they are entitled. Documentation of the Board’s authorization of salaries and wages in writing by resolution, policy document, negotiated employee contract, or collective bargaining agreement, is an important control over payroll expenditures.

We tested payroll reports, time sheets, claims forms,³ and salary notices to determine if officers and employees were paid according to their respective employment or collective bargaining agreements. We examined the payroll records of five employees with gross pay totaling \$24,852 for five payrolls⁴ in the 2011-12 fiscal year and five employees with gross pay totaling \$17,640 for three payrolls⁵ in the 2012-13 fiscal year to ensure that salaried and hourly employees were paid at their approved rates and that a designated officer reviewed and 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 \$905,277, and traced the amounts paid to employee salary notices and employment or collective bargaining contracts to ensure the salaries were paid in accordance with the contractual provisions. We found no exceptions with our testing.

Separation Payments – The collective bargaining agreement covering employees represented by the teachers’ union allows for separation payments for all or a portion of eligible employees’ earned and unused sick leave when they leave District service. Payments for unused sick leave must occur only as authorized by the Board and be properly calculated in accordance with the collective bargaining agreement.

We reviewed the absence verification summary reports,⁶ salary notices, approval letter signed by the Superintendent and the employee, and the retained earnings report to determine if separation payments were supported, approved, and correctly calculated. During our audit period, five employees left District service and received

³ Additional compensation such as coaching stipends are documented on claims forms and paid through the normal payroll process.

⁴ We randomly selected the payrolls dated October 14, 2011, November 23, 2011, January 6, 2012, April 13, 2012, and May 25, 2012.

⁵ We randomly selected the payrolls dated September 28, 2012, November 9, 2012, and February 15, 2013.

⁶ This report documents the employees’ sick day accruals.

separation payments totaling \$30,675. These separation payments were paid in accordance with the collective bargaining agreement.

Payments in Lieu of Health Insurance – To ensure employees receive compensation only for benefits the District intends for them, all benefits must be clearly defined and authorized by the Board. The collective bargaining agreement covering the employees represented by the teachers’ union allows employees to receive compensation in lieu of participating in the District’s health insurance plan. Employees are reimbursed a percentage of the total yearly premium cost based on the contribution amount. By offering this benefit, the District saved \$314,842⁷ in health insurance costs.

We reviewed payroll reports, employee waivers, and health insurance premium records to determine if payments were supported and correctly calculated in accordance with the collective bargaining agreement. We examined all payments totaling \$38,561⁸ made to nine employees in fiscal year 2011-12 and 11 employees in fiscal year 2012-13. We found no exceptions with our testing.

We found the District’s controls over payroll were appropriately designed and operating effectively to safeguard District assets.

⁷ Total health insurance premiums for the employees who received a payment in lieu of health insurance would have been \$353,403 if this benefit was not offered.

⁸ Payments for the 2011-12 fiscal year were \$15,548 and for the 2012-13 fiscal year were \$23,013.

APPENDIX A

RESPONSE FROM DISTRICT OFFICIALS

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

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August 7, 2013

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

Dear ██████████

Please accept this letter in response to the audit conducted for the period of July 1, 2011 to March 31, 2013. After our exit conference that was held on July 18th, 2013, we agree with the report of no findings.

The District would like to thank the members of your field team for their competent, courteous and professional manner in which they conducted themselves during the examination period.

Sincerely,

James Watson
Superintendent of Schools

CC: Board of Education
Joseph A. Karas

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 on the reported objective and scope by selecting for audit the area most at risk. We selected payroll for further audit testing.

During the audit, we examined the payroll records and reports for the period July 1, 2011, to March 31, 2013. To accomplish the objective of the audit and obtain valid audit evidence, our procedures included the following steps:

- We interviewed and observed District officials and employees to learn about 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 randomly selected five employees employed in the 2011-12 fiscal year and then randomly selected five payrolls from the 2011-12 fiscal year to determine if their bi-weekly salaries were legitimate, calculated correctly, and paid in accordance with Board-approved rates.

- We randomly selected five employees employed in the 2012-13 fiscal year and then randomly selected three payrolls from the 2012-13 fiscal year to determine if their bi-weekly salaries were legitimate, calculated correctly, and paid in accordance with Board-approved rates.
- We judgmentally tested the records of the employees with the 10 highest grossing salaries to determine if their gross salaries were paid in accordance with Board-approved contracts.
- We reviewed all separation payments totaling \$30,675 made to five employees during our audit period to determine if the payments were supported and correctly calculated according to the collective bargaining agreement.
- We reviewed all payments made in lieu of health insurance totaling \$38,561 to nine employees during the 2011-12 fiscal year and 11 employees in the 2012-13 fiscal year to determine if the payments were supported and correctly calculated according to the collective bargaining agreement.

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.

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