



South Colonie Central School District

Internal Controls Over Timekeeping Procedures

Report of Examination

Period Covered:

July 1, 2011 — April 30, 2013

2013M-298



Thomas P. DiNapoli

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State of New York Office of the State Comptroller

Division of Local Government and School Accountability

January 2014

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 South Colonie Central School District, entitled Internal Controls Over Timekeeping Procedures. 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 South Colonie Central School District (District) is located in the Towns of Colonie and Guilderland in Albany County and the Town of Niskayuna in Schenectady 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 eight schools in operation within the District, with approximately 5,000 students and 950 employees. The District's general fund expenditures for the 2012-13 fiscal year were approximately \$89 million, funded primarily with real property taxes and State aid. Payroll costs represent a significant portion of the District's budget. These costs totaled approximately \$52 million for the 2012-13 fiscal year.

The District's business operations are overseen by the Assistant Superintendent for Management Services. The District Treasurer's office is responsible for preparing the payroll. The individual school buildings and departments (e.g., food service, transportation, operations and maintenance) are responsible for recording the time worked by employees.

Objective

The objective of our audit was to review the internal controls over the District's timekeeping procedures. Our audit addressed the following related question:

- Did the District establish adequate controls over timekeeping to ensure that employee time and leave records were adequately and accurately maintained?

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 timekeeping procedures for the period July 1, 2011 to April 30, 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.

**Comments of
District Officials and
Corrective Action**

The results of our audit and recommendation 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 recommendation and indicated they planned to initiate 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, a written corrective action plan (CAP) that addresses the findings and recommendations in this report must be prepared and provided to our office within 90 days, with a copy forwarded to the Commissioner of Education. To the extent practicable, implementation of the CAP must begin by the end of the next fiscal year. For more information on preparing and filing your CAP, please refer to our brochure, *Responding to an OSC Audit Report*, which you received with the draft audit report. The Board should make the CAP available for public review in the District Clerk's office.

Internal Controls Over Timekeeping Procedures

One goal of a good payroll system is to ensure that employees only receive compensation and benefits to which they are entitled. An effectively controlled payroll process includes policies, procedures and practices that provide guidance to employees for preparing and approving payroll time records. An important component of payroll is an adequate timekeeping system that ensures the employees are accurately paid for time worked. The absence of adequate controls over timekeeping may leave a payroll system susceptible to error, abuse or even fraud.

As with all school districts, payroll represents a large portion of the District's annual budget. Salaries and wages, including overtime, totaled approximately \$52 million or 58 percent of the District's general fund expenditures for 2012-13. The significant costs involved highlight the importance of good controls in this area.

The District employs instructional, administrative and support staff including administrators, principals, teachers, aides, clerks, bus drivers, and food service and maintenance workers. When necessary, the District calls upon substitute workers to fill in for staff who are unable to work due to illness or other circumstances. The various classes of workers may be paid on a salary, hourly or per diem basis or by another arrangement based on a collective bargaining agreement or District policy. It is important that the District implement procedures that ensure accurate timekeeping records are maintained so that hours worked can be accurately reported to the payroll office. Such procedures include a mechanism for timekeeping such as a punch clock, a computer system or a paper form. Whatever means are used, each employee should record the date and the time work started and ended and the time for lunch breaks. Employees should sign the forms, indicating that the entries are accurate. Supervisors should also sign the forms to indicate that they have reviewed them for completeness and accuracy. Where paper systems are used in the District, a two-part form provides the employee and the District with a timekeeping record.

The District communicates payroll procedures by various means, including a written payroll guide, periodic training and occasional email messages. Although the District provides useful information for clerks and supervisors involved in reporting to the payroll office, it does not provide uniform timekeeping procedures. Due to the lack of formal written guidance, the school buildings and functional departments have generally developed their own timekeeping

procedures. The result is a lack of uniformity in procedures which may lead to confusion, errors or even timekeeping abuse.

The District's functional departments and school buildings follow various procedures for reporting the employees' time worked and approved absences (e.g., illness and personal leave) to the payroll office. Generally, the functional departments (e.g., food service, transportation, operations and maintenance) report summaries of work for two-week payroll periods on paper forms. Due to the nature of the work performed, (for example, food service workers work under different circumstances than bus drivers) the summary forms are somewhat different. Separate paper forms are used to report employee absences such as illnesses and vacations. A standard form for reporting these absences is used throughout the District. Other paper forms are used to report the time that District employees are engaged in activities like chaperoning, conducting in-home instruction, working overtime and additional hours that employees work beyond their normal schedule.

The payroll clerk enters the reported information from the paper forms into a computerized payroll-processing program. Clerks in the Business Office perform checks of the reported absences to ensure that the employees have sufficient leave balances to cover reported absences. The clerks also maintain leave accrual records and keep them up to date. The Assistant Superintendent for Management Services certifies the payrolls to attest to their accuracy. The paychecks are printed in the Business Office and delivered by courier to the buildings and departments for distribution to employees.

Although the District has implemented procedures and controls over the payroll process, there is room for improvement due to the lack of uniformity in procedures. For example, the cafeterias use timekeeping forms that are essentially summaries of the days and hours worked by the employees. However, the working hours are not specified and the forms are not signed by either employees or supervisors. The Transportation Department uses a form to record the time worked by part-time employees and substitutes but the full-time employees do not fill out timesheets for their regularly scheduled hours. The employees in the Buildings and Grounds Department do not fill out individual timesheets. Although their beginning and ending times for the days in the pay period are listed on a single form for use by the payroll clerk, this form does not contain the signatures of either the employees or supervisors attesting to the accuracy of the reported time.

The school buildings use different forms to track the work of substitute teachers. For example, the form used at the Sand Creek Middle School

includes the substitute's name, the teacher for whom the substitute is working, an indication of whether the substitute is working a full or half day and a space to sign out upon departure. The Colonie Central High School uses a form which includes the substitute's name, the teacher for whom the substitute is working, license plate number and an identification number. There is no space to indicate when the substitute arrived or departed. We obtained copies of the forms used at the Lisha Kill Middle School and Forest Park Elementary School and found that each contained yet a different format.

We also found situations and the use of forms that demonstrated adequate controls over timekeeping. For example, the District has a form which is required when teachers provide home instruction for students. The form includes the names of students, the dates, beginning and ending times of instruction, a calculation of the instructional hours and the teacher's signature. The form also needs to be signed by a principal and the Assistant Superintendent for Instruction. A form that is used by chaperones includes a description of the event, the date, the specific hours worked, a calculation of the payment due the chaperone and spaces for the signatures of the chaperone, a supervisor and a principal. A form used to report overtime includes a list of employees who earned overtime, the total overtime hours worked and the reason for the overtime and requires the approval of a supervisor and the Assistant Superintendent for Management Services. The District also uses uniform procedures and similar forms for reporting employee absences (e.g., sick leave and personal leave).

Due to the lack of specific guidance and uniformity for timekeeping procedures, we tested¹ computerized data and records for samples of employees, including substitutes, working for different functional departments and school buildings. Our tests included regular hours, overtime and the use of accrued leave time such as sick leave. For example, we selected six of 64 employees with custodial titles, eight of 83 employees with bus driver titles and five of 55 employees with food service titles. For the selected employees, we traced from source documents maintained at the departments to the computerized data maintained at the Business Office. Except for minor deficiencies that we discussed with District officials, we found that the controls over timekeeping were adequate to limit the risks associated with a lack of specific guidance and uniform procedures. However, the District can strengthen the controls over timekeeping by establishing and implementing uniformity of procedures and forms.

¹ See Appendix B, Audit Methodology and Standards, for our testing methodology.

Recommendation

1. The District should implement uniform timekeeping procedures that include individual employee timekeeping forms. The forms should provide detail about the hours employees actually work and should include the employees' signatures and the signatures of their supervisors which indicate agreement with the accuracy of the employees' information on the forms.

APPENDIX A

RESPONSE FROM DISTRICT OFFICIALS

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

December 20, 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]:

Please accept this letter as the official response to the NYS Comptroller report "South Colonie Central School District *Internal Controls Over Timekeeping Procedures*", Report of Examination for the period July 1, 2011 - April 30, 2013. The report resulted from an examination which took place at the South Colonie Central School District from May - July 2013.

The South Colonie Central School District Board of Education, Audit-Finance Committee and Administration have reviewed the preliminary draft audit report. The District agrees with the general recommendation to establish a uniform timekeeping procedure for department and building level employees.

The report stated that except for minor deficiencies, the District's controls over timekeeping were adequate to limit the risks associated with a lack of specific guidance and uniform procedures. However, to further strengthen the controls over timekeeping, the District plans to implement a uniform reporting process including standardized forms signed by employees and their supervisors for the fiscal year commencing July 1, 2014.

This letter also serves as the Corrective Action Plan for the District.

We would like to commend your field auditors for the professional, competent and courteous manner in which they conducted the audit process. On behalf of the South Colonie Central School District Board of Education, Administration and Business Office staff, we would like to extend our appreciation for your technical guidance and support as we strive to maximize the use of public resources.

Sincerely,

Jonathan W. Buhner
Superintendent
South Colonie Central Schools

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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. 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 internal controls over timekeeping procedures for further audit testing. We performed the following procedures:

- We interviewed administrators, supervisors and other District staff to obtain an understanding of the procedures for employee timekeeping and tracking leave accruals. We reviewed materials that inform employees about the payroll process including a payroll guide, a Power Point presentation, written instructions for substitute teacher processing and periodic emails sent to staff.
- We obtained copies of paper forms that the functional departments and school buildings use to track employees' time. We conducted preliminary testing to determine the validity and reliability of computerized data.
- We selected the last four pay periods for which computerized raw data was available – February and March 2013 (there were three pay periods in March 2013). We selected six of 64 employees with custodial titles, eight of 83 employees with bus driver titles and five of 55 employees with food service titles. We chose every tenth employee from alphabetical lists of titles and names. For all selected employees, we traced from source documents to the computerized data.
- For the same four pay periods, we selected employees who received the five highest payments out of 86 records. We also selected employees who received the five highest payments as chaperones out of 56 records and five of 31 employees who received payments for home instruction. We chose the first and then every fifth employee from an alphabetical list. For all selected employees, we traced from computerized data to source documents.
- For the same four pay periods, we selected employees who received additional pay (pay for time above regular working hours but not overtime). We chose the five top earners without including the same employee twice out of 89 records. We also selected employees who received pay as substitutes by choosing five employees from an alphabetical list that included 264 names. For all selected employees, we traced from computerized data to source documents. Based on the review of substitutes, we selected the teachers that the substitutes replaced. We traced source documents to computer records to determine if the teacher absences were accurately recorded.

We conducted this audit in accordance with 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.

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