



Amani Public Charter School

Payroll and Timekeeping

Report of Examination

Period Covered:

July 1, 2013 – September 30, 2014

2015M-46



Thomas P. DiNapoli

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State of New York Office of the State Comptroller

Division of Local Government and School Accountability

July 2015

Dear School Officials:

A top priority of the Office of the State Comptroller is to help charter school officials manage school financial operations efficiently and effectively and, by so doing, provide accountability for moneys spent to support school operations. The Comptroller audits the financial operations of charter schools outside of New York City to promote compliance with relevant statutes and observance of good business practices. This oversight identifies opportunities for improving school financial operations and Board governance. Audits also can identify strategies to reduce school costs and to strengthen controls intended to safeguard school assets.

Following is a report of our audit of the Amani Public Charter School, entitled Payroll and Timekeeping. This audit was conducted pursuant to Article V, Section 1 of the State Constitution and the State Comptroller's authority as set forth in Section 2854 of the New York State Education Law, as amended by Chapter 56 of the Laws of 2014.

This audit's results and recommendations are resources for school officials to use in effectively managing operations and in meeting the expectations of taxpayers. 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

A charter school is a public school financed by local, State and federal resources that is not under the control of the local school board and is governed under Education Law Article 56. Amani Public Charter School (School), located in the City of Mount Vernon, is governed by a Board of Trustees (Board) which comprises nine members. The Board is responsible for the general management and control of the School's financial and educational affairs. The Board appoints the Executive Director, who is the chief executive officer responsible, along with other administrative staff, for the School's day-to-day management under the Board's direction. The Director of Finance (Director) is the accounting officer and is responsible for maintaining custody of, depositing and disbursing School funds, maintaining the financial records, preparing the annual budget and preparing monthly and annual financial reports.

Charter schools have fewer legal operational requirements than traditional public schools. Most of the regulations for a charter school are contained in the entity's bylaws, charter agreement and the fiscal/management plans, which are part of the charter school application. Charter schools are required to set both financial and academic goals.

During the 2013-14 school year, the School had 320 students and 45 employees. The School's budgeted appropriations for the 2013-14 and 2014-15 school years were approximately \$4.2 and \$5.5 million, respectively. These appropriations were funded primarily with revenues derived from billing area school districts for resident pupils (99 percent) and from certain State and federal aid attributable to these pupils.

Objective

The objective of our audit was to examine the School's payroll and timekeeping functions. Our audit addressed the following related question:

- Did School officials ensure that payroll and time records were accurate?

Scope and Methodology

We reviewed the payroll and timekeeping functions for the period July 1, 2013 through September 30, 2014.

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
School Officials and
Corrective Action**

The results of our audit and the recommendation have been discussed with School officials, and their comments, which appear in Appendix A, have been considered in preparing this report. School officials generally agreed with our recommendations and indicated they planned to initiate corrective action.

The Board has the responsibility to initiate corrective action. We encourage the Board to prepare a plan of action that addresses the findings and recommendations in this report, and to forward the plan to our office within 90 days. For more information on preparing and filing your Corrective Action Plan (CAP), please refer to our brochure, *Responding to an OSC Audit Report*, which you received with the draft audit report. We encourage the Board to make this plan available for public review.

Payroll and Timekeeping

An important component of accounting for employees' pay is maintaining records, including timesheets that accurately capture the salary or hourly amount that should be paid for all aspects of work. In addition, leave accruals and usage should be properly requested, approved and deducted in accordance with the School's policy. Policies and procedures need to be clear to provide a framework for preparing, reviewing and maintaining timekeeping and leave records so that everyone involved has a clear understanding of the process.

Expenditures for salaries and benefits comprise a significant portion of the School's budget. Salaries and benefits, including overtime, totaled approximately \$2.5 million, or 59 percent of the School's expenditures for the 2013-14 school year. To properly control and account for these costs, School officials should ensure that salaries paid, time worked and leave time earned and used are properly approved and documented so employees are paid for only amounts to which they are entitled.

School officials did not comply with the Board-adopted Financial Policies and Procedure Manual (policy). Payroll records for all 47 employees that we reviewed for the 2013-14¹ school year did not have a Personnel Action Form (Form) and 13 did not have offer letters on file as required by the School's policy. Of the 34 employees that had offer letters in their files, four were cumulatively overpaid by \$1,528 and one was underpaid by \$429. In addition, the Board did not establish clear policies and procedures for the accrual and use of leave time. As a result, five of the six administrative staff took more vacation time off than the 10 days allowed by the School's policy. Furthermore, we found that all employees' beginning balances of personal leave were in excess of the three days allowed, resulting in an additional cost to the School.

Pay Rates

The Board adopted a policy that requires that an offer letter be obtained and maintained for each employee. The offer letter documents the job title, rate of pay and the employee's acceptance of the position. Board policy also requires that all payroll changes, including new hires, extra pay stipends (stipends) and pay rate changes must be initiated on the Form.

¹ We selected the pay periods of October 31, 2013 and February 28, 2014. See Appendix B for more information on our sample selection.

We examined all employee personnel files² for two pay periods in each of the 2013-14 and 2014-15 school years³ to determine whether offer letters and the Forms were available in accordance with the Board's policy. Offer letters were not on file for 13 employees in the 2013-14 school year and two employees in the 2014-15 school year. In addition, we found that School officials did not use the Form for any changes that affected payroll, such as new hires, stipends and pay rate changes. Without offer letters or Forms, the School has no documentation of the approved pay rates and salaries for employees. This increases the risk of errors and the risk that employees could be paid the incorrect salaries and wages.

Offer letters were on file for 34 employees in 2013-14 and 44 employees in 2014-15. We compared salaries and pay rates paid to these employees to the salary and wage rates stated in their offer letters to determine if they were being paid the correct amount. In 2013-14, four of the 34 employees were overpaid by \$1,528 for the two pay periods we reviewed. We also found that one employee was underpaid by \$429 for these two pay periods. For the 2014-15 school year, we found only minor discrepancies in our testing. Finally, we reviewed all 22 stipend payments⁴ for the four pay periods; 19 employees, or 86 percent, did not have documentation in their personnel files indicating the rate of pay for the stipends. As a result, School officials paid a total of \$6,395 in stipend payments that may not have been properly authorized.

School officials did not comply with the School's policy of keeping a copy of the offer letter or Form in each employee's personnel file. The absence of these documents increases the risk that employees are not being paid the correct salary or pay rate. As a result, the School could incur more costs than necessary by overpaying employees.

Timekeeping

The Board adopted a policy that includes requirements on how employee time is accounted for. A timesheet completed by an employee should indicate the starting and ending work times and breaks; show calculations of the total hours worked per day, week and pay period; and indicate any leave accruals used. Employees are responsible for reporting time accurately, and supervisors are required to sign the timesheets, indicating that the time reported has been reviewed.

² Forty-seven in 2013-14 and 46 in 2014-15

³ We selected the pay periods of October 31, 2013, February 28, 2014, August 30, 2015 and September 15, 2014. See Appendix B for more information on our sample selection.

⁴ Payments made to employees for other non-regular hours worked, such as for the various after school programs

School officials did not ensure that all required School employees completed and submitted timesheets to support hours worked. This occurred because School officials did not follow the Board's written policies and procedures for timekeeping. While most of the School's employees are salaried and not required to complete timesheets, the School's employees who are paid hourly and for any extra work for the various afterschool programs are responsible for tracking the time they have worked on a timesheet. School officials did not ensure that hourly and extra pay employees completed and submitted their timesheets to support hours worked.

We reviewed all 44 salaried and six non-salaried employees that were required to fill out a timesheet for two pay periods⁵ in each of the 2013-14 and 2014-15 school years, respectively, to determine if timesheets were submitted and, if so, were signed by their supervisors. We also compared the hours submitted on the timesheets to the number of hours the employees were paid. In the 2013-14 school year, no timesheets were available for nine of these employees. Of the 35 that submitted timesheets, one timesheet was not signed by their supervisor. In addition, eight of the employees' timesheet hours did not agree with total amount of hours they were paid. Six of these employees were cumulatively paid four hours more and two were cumulatively paid six and one-half hours less than they were entitled to. Similarly, for the 2014-15 school year, one of the six employees' timesheets was missing. Of the five employees with timesheets, one employee's timesheets did not agree with the number of hours they were paid. This employee was paid one and a quarter hours more than they were entitled to. School officials stated that the missing timesheets and related errors were due to clerical oversight.

When timesheets are not properly reviewed and approved, there is an increased risk that errors and irregularities could occur and not be detected and corrected in a timely manner.

Leave Accruals

Regular full-time School employees are entitled to the benefit of paid time off, consisting of vacation, sick and personal time. The School requires that vacation time for instructional and non-instructional employees is to be used when classes are not in session. Administrative staff and School administrators are granted 10 days of paid vacation to be used when school is not in session; 20 unused vacation days can be rolled over into the next school year. Regular full-time employees receive three personal days per year; unused days cannot be rolled over into the next school year. In addition, regular full-time employees receive five sick days per year; unused days cannot be rolled over into the next school year. Although School policy states that employees

⁵ We selected the pay periods of October 31, 2013 and February 28, 2014. See Appendix B for more information on our sample selection.

should ask or notify the Director before taking time off, it is silent about the procedure employees should use to request time off.

Leave Time Used – For the 2013-14 and 2014-15 school years, six administrative employees were entitled to earn vacation time. We reviewed the leave accrual spreadsheet maintained by the Director and found there were no beginning and ending balances showing the amount of vacation time available for both school years. In the 2013-14 school year, only two of the administrative employees' used vacation time that was recorded on the leave accrual spreadsheet. In the 2014-15 school year, five of the six administrative employees had taken more time off than the allotted 10 days. These five employees cumulatively took an additional 22 vacation days that they may not have been entitled to. School officials could not determine if these employees were entitled to these days because there were no beginning balances to show that these employees had available vacation day carryovers from the prior school year. The School could have cumulatively overpaid these five employees \$5,957.⁶

We reviewed the leave accrual spreadsheet, which listed 42 and 41 employees for the 2013-14 and 2014-15 school years, respectively, and found that all of the employees in both years had been given more personal time than allowed. All employees had beginning balances in excess of three days allotted per year. School officials stated the error was the result of a clerical oversight. Employees had not yet used personal leave during the 2014-15 school year that would put them over the allotted three days per year. We also reviewed sick time and found that all employees listed for 2013-14 and 2014-15 school years were given the proper allotment of days. We found only minor discrepancies in our testing of sick leave used.

The School's records were inaccurate because there are no clear written procedures in place for the employees keeping the leave time requests and accrual records to follow, and there is no supervisory review to ensure that the process has been performed correctly. School officials told us that these errors were the result of clerical oversight and they believe that the employees took the amount of leave time they were entitled to. However, School officials could not substantiate their belief. When employees' leave accruals are not accurate, the District is susceptible to compensating employees for time they are not entitled to. When there is no supervisory oversight, the process is susceptible to errors that go undetected.

⁶ We calculated each administrative employee's daily rate, the amount of vacation days used during the year and the number of days used over the allowed carryover of 20 vacation days into the next school year. See Appendix B for more information on this calculation.

Recommendations

School officials should ensure that:

1. All employees have offer letters and/or Personnel Action Forms in their personnel files to establish salaries and wages at the start of each school year.
2. Timesheets should include starting and ending work times and breaks. Hours worked should be correctly totaled and timesheets should be signed by both the employee and their supervisor.

The Board should:

3. Adopt policies and procedures to ensure that employee leave benefits are properly provided, used and accounted for. A verification process should be implemented to ensure that leave time earned and used is properly tracked for each employee.

APPENDIX A

RESPONSE FROM SCHOOL OFFICIALS

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



July 1, 2015

Office of the State Comptroller
Tenneh Blamah – Chief Examiner
33 Airport Center Drive (Suite 103)
New Windsor, NY 12553

Dear Ms. Blamah,

The Board of Directors, along with the school leadership team, has reviewed the school's audit draft report of the 2013-14 fiscal year. On behalf of the Amani Public Charter school and the Board of Trustees, we appreciate the time spent auditing our fiscal operations and providing feedback for areas of improvement. Operationally, our main focuses are transparency and efficiency. Although there were a limited number of findings, addressing these findings will strengthen controls and improve Board governance. Below you will find the responses to the findings of the draft and the corrective action plan to be put into place for each finding.

During the audit review, OSC found a number of employees were without offer letters in their employee file. According to our Board approved Financial Policies and Procedure Manual, all paid staff must have an up to date offer letter in their employee file. OSC also found that a few employees were over paid and underpaid.

Response

- There are a number of employees at Amani Public Charter School that work outside their normal work hours for our after-school program. In these special circumstances, an additional letter agreement is prepared to explain the extra pay an employee is set to receive. This letter is then signed by the employee and stored in the corresponding employee file. Missing additional letter agreements in employee files explain the reported overpayment in the findings (the employees were actually paid correctly for the additional work they performed). We have developed a corrective action plan to rectify this issue for the future.

Corrective Action Plan

- The school will perform an in-house employee file audit at the end of every quarter of the fiscal year to ensure offer letters and additional letter agreements are current and are included in each and every paid employee file. The offer letter and additional letter agreements will then be cross-referenced with the most recent payroll register to ensure accurate employee pay. This in-house audit will be performed by the Director of Operations and the Director of Finance. There will be a form completed to confirm the procedure was done each time. This form is to be signed by the Director of Operations, Director of Finance, and Executive Director.

During the audit review, OSC found that there were a number of employees that did not submit time sheets for the tested payroll period. There were also time sheets that were not filled out correctly.

Response

- Time sheets are to be filled out by all hourly / daily rate employees. Salaried staff are not required to fill out time sheets. We have developed a corrective action plan to rectify the issue of incorrect or missing timesheets for the future.

Corrective Action Plan

- The school will move to an employee ID Time scanner system that will require all employees (salaried included) to scan their ID upon arrival and as they depart from the building. This scanner will be compatible with the school's payroll system and will automatically update time and attendance electronically. This process has proven to be more efficient for other schools than the traditional hard copy timesheet method.

During the audit review, OSC found that there was not a step-by-step Leave Accrual Process in place. OSC also found that some employees were awarded more than the allowed paid time off stated in the Employee Manual.

Response

- [The Board of Trustees has updated and approved the employee manual to reflect the new amount of paid time off.] We have also developed a corrective action plan to address the Leave Accrual Process for the future.

Corrective Action Plan

- The school will require that employees complete a leave request form and submit to their supervisor for approval. This form will also be required to be signed by the Executive Director. With the employee ID scanner process fully functioning, there will be a direct correlation of employees' attendance and leave request forms. [The Board will update the Employee Manual to include this process.]

Sincerely,

Michael Bailey
Director of Finance

APPENDIX B

AUDIT METHODOLOGY AND STANDARDS

The objective of our audit was to ensure that payroll and time tracking functions were being performed in accordance with policies and procedures to safeguard School assets. To accomplish this, we interviewed appropriate School officials, tested selected records and examined pertinent documents for the period July 1, 2013 through September 30, 2014. Our procedures included the following:

- We interviewed School officials to gain an understanding of the School's payroll and time tracking practices.
- We reviewed the School's policies and procedures manual as well as the employee handbook as they related to our audit objective.
- We reviewed personnel files for offer letters, the Form and time off requests.
- We reviewed and tested four pay periods: two in 2013-14 and two in 2014-15. There were 30 pay periods during our audit scope of July 1, 2013 through September 30, 2014. We used professional judgment to select four pay periods for testing. We used a random between function to pick the four pay period numbers to review. The random between function came up with pay periods numbers eight, 16, 28 and 29. We then correlated these numbers to the pay period dates of October 31, 2013, February 28, 2014, August 30, 2014 and September 15, 2014.
- We reviewed time sheets for the same four pay periods.
- We reviewed the School's manual system of tracking time off used, which is maintained on a spreadsheet, for the 2013-14 and 2014-15 school years.
- We calculated a daily rate of pay for employees that earned vacation time. We calculated the number of working days in a year by using a total of 365 days in a year less 96 days for weekends, which leaves 269 working days. We divided the 269 working days by 12 months, which comes to 22.4 working days per month. We divided the 22.4 working days a month by two pay periods per month, which equals 11.2 days of pay per pay period. We took the rate of pay and multiplied it by the amount of days over the allotted days to quantify the variance.

We conducted this performance 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.

APPENDIX C

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