



Saranac Central School District Payroll

Report of Examination

Period Covered:

July 1, 2014 – September 30, 2015

2015M-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 2016

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 Saranac Central School District, entitled 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 New York State 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 Saranac Central School District (District) is located in the Towns of Beekmantown, Black Brook, Dannemora, Plattsburgh, Saranac and Schuyler Falls in Clinton County. The District is governed by the Board of Education (Board), which is composed of seven 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 District's day-to-day management under the Board's direction.

The District operates four schools with approximately 1,470 students and 305 employees. The District's budgeted appropriations for the 2015-16 fiscal year are \$31.7 million, which are funded primarily with State aid and real property taxes. The District's payroll expenditures totaled approximately \$15.5 million during our audit period. The District's payroll clerk works under the Business Administrator's direction and is responsible for processing payrolls.

Objective

The objective of our audit was to evaluate the District's payroll procedures. Our audit addressed the following related question:

- Did District officials establish adequate procedures to ensure employees' salaries and wages were accurately paid?

Scope and Methodology

We examined the District's payroll procedures for the period July 1, 2014 through September 30, 2015.

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. Unless otherwise indicated in this report, samples for testing were selected based on professional judgment, as it was not the intent to project the results onto the entire population. Where applicable, information is presented concerning the value and/or size of the relevant population and the sample selected for examination.

Comments of District Officials and Corrective Action

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. District officials generally agreed with our recommendations and indicated they planned to initiate corrective action.

The Board has the responsibility to initiate corrective action. Pursuant to Section 35 of General Municipal Law, Section 2116-a (3)(c) of New York State 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.

Payroll

District officials are responsible for establishing adequate procedures to ensure employees are paid the salaries and wages authorized by the Board. The Board approves amounts to be paid through collective bargaining agreements and individual employee contracts. A well-designed system over payroll processing requires that the Board and District officials establish policies and procedures that provide guidance and oversight for employees who process payroll. It is important that one individual is not responsible for the entire payroll processing function. If the District's limited staff precludes establishing adequate segregation of duties, at a minimum, the District should consider implementing certain mitigating controls. These controls include having someone independent of the payroll preparation process compare payroll source documents to payrolls to ensure they are based on actual hours or days worked and Board-authorized hourly rates or annual salaries.

The payroll clerk's duties were not adequately segregated because she was responsible for collecting employees' time records; recording the hours worked or salaries to be paid; making changes to employees' pay rates, withholdings and deductions and having access to paychecks until she disbursed them to District employees. The payroll clerk performed all of these duties with limited oversight.

Although the Board adopted a payroll policy that included oversight procedures to mitigate the risk resulting from a lack of segregation of duties, these procedures were either not adequately performed or not performed at all. For example, the policy outlines that the Superintendent,¹ who is independent of the payroll process, is responsible for certifying the payrolls. However, the Superintendent's payroll certification was not adequate. The Superintendent did not compare the payroll registers with payroll source documents (i.e., time records) to ensure that payments were based on the actual hours or days worked and Board-authorized hourly rates or annual salaries. No one reviewed the source documents to verify whether the payroll clerk accurately processed payrolls. In addition, the policy requires the Superintendent to initiate periodic tests² to verify the accuracy and appropriateness of the District's payroll. However, neither the Superintendent nor other District officials performed any periodic tests of the District's payroll.

¹ The Business Administrator in the Superintendent's absence

² The policy outlines that the tests should confirm that individuals listed on the payroll are currently employed by the District and that the title, hours worked and wages listed are correct.

We reviewed all payroll payments totaling \$1,023,287³ made to 20 employees⁴ during our audit period to verify whether the employees' salaries and wages were accurately paid. Except for minor discrepancies which we discussed with District officials, we found the employees' salaries and wages were accurately paid. Although we did not find any material discrepancies, the lack of segregation of duties associated with processing payrolls, along with the lack of adequate oversight to verify the accuracy of the work performed by the payroll clerk, increases the risk that errors or irregularities with the processing of payrolls could occur and remain undetected.

Recommendations

1. District officials should implement compensating controls to address the lack of segregation of duties within the payroll process. Such controls include ensuring that oversight procedures are performed as directed by the Board-adopted payroll policy and increasing management reviews of work performed by the payroll clerk.
2. The Superintendent, or in his absence the Business Administrator, should compare payroll registers to payroll source documents when certifying payrolls to ensure that payments are based on actual hours or days worked and Board-authorized hourly rates or annual salaries.

³ Payroll payments totaling \$861,485 during the 2014-15 fiscal year and \$161,802 during the period July 1, 2015 through September 30, 2015.

⁴ Appendix B contains our sampling methodology.

APPENDIX A

RESPONSE FROM DISTRICT OFFICIALS

The District officials' response to this audit can be found on the following page. District officials included a payroll form with their response. Because their response contained sufficient information to indicate their intentions, we did not include the payroll form in the final report.

Saranac Central School District

PO Box 8, Saranac, New York 12981 Tel. (518) 565-5600 ~ Fax (518) 565-5617

January 12, 2016

Mr. Jeffrey P. Leonard, Chief Examiner
Office of the State Comptroller
One Broad Street Plaza
Glens Falls, NY 12801-4396

Dear Mr. Leonard,

The Saranac Central School District is in receipt of the Comptroller's draft audit report of the District's payroll for the period commencing July 1, 2014 and ending September 30, 2015. We appreciate the thorough analysis of our payroll procedures and always welcome suggestions that could improve oversight and control of the process. Please note that this letter will serve as both response and corrective action plan.

Although the audit found that our salaries and wages are accurately paid, we recognize that the process of periodic tests by the Superintendent needs to be formalized and properly recorded. The attached form is currently being used and tests are scheduled for the last payroll date in the months of December, March, June and September. Necessary source documents (i.e., time records, salary lists) will be reviewed and copies attached to the form. Results will be reviewed with the payroll clerk, business manager and with the audit subcommittee. Any discrepancies will be corrected immediately.

This letter/action plan was reviewed and approved by the Board's Audit Sub-Committee and approved by the entire Board at their January 11, 2016 meeting. A copy of this letter will be forwarded to the Office of Audit Services at the NYS Education Department.

We are constantly looking for ways to improve our financial practices and we thank the office of the Comptroller for providing assistance and guidance in these matters.

Sincerely,

Jonathan A. Parks
Superintendent of Schools

APPENDIX B

AUDIT METHODOLOGY AND STANDARDS

The objective of our audit was to evaluate the District's payroll procedures for the period July 1, 2014 through September 30, 2015. To accomplish our audit objective and obtain valid audit evidence, we performed the following procedures:

- We interviewed District officials and employees and reviewed the District's policy manual, employment contracts, collective bargaining agreements and various financial records and reports to gain an understanding of the District's procedures related to payroll and any associated effects of deficiencies in those procedures.
- We reviewed all payroll payments made to 20 employees during our audit period to verify whether the employees' salaries and wages were accurately paid. Our sample consisted of first selecting the employee who processed payroll during our audit period. We then used a computerized random number generator to select 19 other employees who received payroll payments during our audit period, for a total of 20 employees.

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.

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