



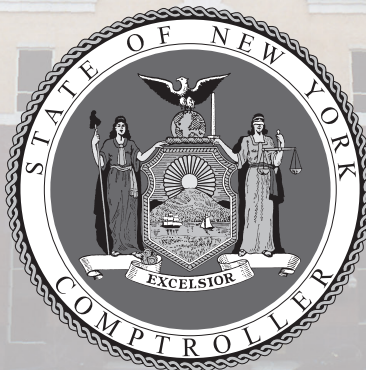
Eden Central School District Payroll

Report of Examination

Period Covered:

July 1, 2015 – December 6, 2016

2017M-11



Thomas P. DiNapoli

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State of New York Office of the State Comptroller

Division of Local Government and School Accountability

April 2017

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 Eden 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 Eden Central School District (District) is located in the Towns of Boston, Concord, Eden, Evans and North Collins in Erie 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 Director of Finance (Director) is responsible for overseeing the payroll function, which includes performing payroll certifications. The District's payroll clerk, who reports to the Director, is responsible for the day-to-day payroll duties.

The District operates three schools with approximately 1,400 students and 240 employees. The District's budgeted appropriations for the 2016-17 fiscal year are \$27.4 million, which are funded primarily with real property taxes, State aid and sales tax. General fund payroll payments totaled approximately \$12.6 million, or 53 percent of general fund expenditures in 2015-16.¹

Objective

The objective of our audit was to evaluate the accuracy of payroll payments. Our audit addressed the following related question:

- Did the District accurately pay employees' salaries and wages?

Scope and Methodology

We examined the District's payroll records for the period July 1, 2015 through December 6, 2016.

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 C 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.

¹ Additional payroll expenditures totaled approximately \$495,000 in the federal fund and \$70,000 in the cafeteria fund.

**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. Appendix B includes our comments on issues raised in the District's response.

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

An effective payroll system provides assurance that payroll transactions are appropriately supported, properly authorized and accurately paid. The Board should adopt adequate policies and District officials should develop written procedures to ensure employees are accurately paid their respective salaries and wages. The Board should approve the amounts to be paid to District employees through collective bargaining agreements (CBAs), individual employee contracts and Board-established rates, stipends and other salary related payments. District officials should establish procedures for staff to follow when calculating salaries and wages. In addition, District officials should ensure that staff properly record and maintain leave accruals and usage.

While the Board has not established a comprehensive payroll policy and District officials have not updated existing written payroll procedures since October 2011, we found that there were no significant exceptions regarding the accuracy of the payment of salaries, wages or stipends. However, the existing payroll procedures do not provide for sufficient management oversight of the payroll clerk's activities.

The District Clerk enters certain information for new employees into the payroll system (system) and the Director enters the Board-approved salaries and pay rates for each new employee. Then, on an ongoing basis, the payroll clerk updates salaries and wage rates for existing employees and enters any subsequent job titles, salary increases and stipends into the system, as needed. All employees, except the Director and Superintendent,² complete timesheets that are gathered, reviewed and approved by the supervisor of each building and department.

Once approved, time sheets are sent to the payroll clerk who enters time and attendance information into the system and then processes the payroll. The Director then reviews the payroll check register, which includes each payroll check number, date, employee name and total payment for each employee. However, the Director told us during fieldwork that he focuses mainly on verifying the check totals. As a result, the Director does not adequately review the accuracy of payroll, in particular in situations where wages or pay rates change, or when there are additional payments.

We examined the regular salary payments for 40 employees and overtime payments for eight additional employees during five payroll

² An attendance report is completed for these employees each pay period.

periods. We found that regular salary and overtime payments were paid in accordance with Board approvals, correctly calculated and properly supported.

District employees are entitled to accrue and use leave time and also, in some cases, convert unused leave to cash payments at fiscal year-end in accordance with individual contracts, CBAs or Board resolution. We examined leave records for 10 employees during five payroll periods and found that leave time use, accruals and unused leave payments were properly supported, accrued and recorded.

While our testing did not identify material exceptions, opportunities exist for the Board and District officials to improve internal controls and management oversight of the payroll process. This would provide District officials with assurance that errors and irregularities do not occur and remain undetected and uncorrected.

Recommendations

The Board and District officials should:

1. Develop and adopt a comprehensive written payroll policy and update existing written procedures.
2. Provide adequate oversight of payrolls, including changes to wages or pay rates and stipend payments.

APPENDIX A

RESPONSE FROM DISTRICT OFFICIALS

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

Eden Central Schools

3150 Schoolview Road
Eden, New York 14057



Sandra Anzalone
Superintendent of Schools

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March 20, 2017

Office of the New York State Comptroller
Buffalo Regional Office
295 Main Street, Suite 1032
Buffalo, NY 14203-2510
Attn: Jeffrey D. Mazula, Chief Examiner

Re: OSC Audit – Eden CSD

Dear Mr. Mazula:

We write to you in response to the Office of the State Comptroller letter dated February 23, 2017 regarding the audit examination of our district. The recommendations of the OSC are as follows:

1. Develop and adopt written payroll policies and update existing written procedures.
2. Provide adequate oversight of payrolls, including changes to wages or pay rates and stipend payments.

With regards to the first recommendation, the District currently has two sections of the Eden Central School District policy manual that address payroll; these include policies 5510 (accounting of funds) and 6530 (payroll deductions). The District has joined the Policy Manual Service through Erie 1 BOCES for the upcoming school year. The District will work through BOCES to include a payroll policy update utilizing best practices across the region. The District also has existing written procedures through the Business Office. These will be updated in the coming year, as staffing changes will be occurring in the office. This will necessitate a change in duties for some personnel. It is too early to update the procedures until the staffing changes are complete. The procedure update will begin during the 2017-2018 school year.

See
Note 1
Page 8

With regards to the second recommendation, as was stated during the audit findings meeting, the Director of Finance routinely does sign off on any changes to wages or pay rates and stipend payments. These changes are not made in a vacuum. In addition, the Director of Finance and Treasurer, independently, audit the work of the Payroll Clerk via a random sampling method. This will continue, as well as increase in frequency. In addition, the upcoming change in personnel provides an opportunity to have new Business Office personnel independently prepare portions of the payroll, thus making it even more difficult to have sole ownership of payroll work. It is more difficult in a smaller district to have independent cross-ownership as there simply are not enough people to normally afford this opportunity. That being said, the District has safeguards in place and will continue to expand those safeguards to best protect the residents of the Eden Central School District.

See
Note 2
Page 8

The District would also like to take this opportunity to thank the Office of the State Comptroller and field staff for what has proved to be a positive experience.

Best regards,

Sandra Anzalone
Superintendent

SA/tm

Raiders Have: Respect and tolerance. Appreciation. Integrity. Determination. Empathy. Responsibility. Self-control

APPENDIX B

OSC COMMENTS ON THE DISTRICT'S RESPONSE

Note 1

We recognize that these policies address certain aspects of payroll operations (the payroll clerk's access to online banking and the District's authority to make employee-authorized payroll deductions). However, these policies do not constitute a comprehensive payroll policy. We modified our report to clarify this issue.

Note 2

District officials did not provide us with documentation showing that the Director signed off on these changes or conducted a random sampling audit of the payroll clerk's work.

APPENDIX C

AUDIT METHODOLOGY AND STANDARDS

To achieve our audit objective and obtain valid evidence, we performed the following procedures:

- We interviewed District officials and key employees and reviewed documented payroll procedures and Board minutes to gain an understanding of the District's payroll process.
- We reviewed all payroll records of 36 randomly selected employees and four additional employees judgmentally selected based on their involvement with, and access to, the payroll process. We reviewed these employees' payroll payments for December 2015 and June 2016 to determine whether their pay was calculated properly and paid accurately. We randomly selected December 2015 and judgmentally selected June 2016 because it was the last month in the completed fiscal year. The random samples were selected using a random number generator.
- We judgmentally selected eight additional employees whose aggregate payments made up 30 percent of total overtime pay to determine whether overtime payments during our test months (December 2015 and June 2016) were accurately calculated based on employee time sheets and Board-approved rates.
- We judgmentally selected 10 employees from our previously selected sample and reviewed these employees' leave accruals for our test months (December 2015 and June 2016) to determine whether proper approvals and documentation of leave time used were accurately maintained. We also determined whether the payment to one employee for unused leave was properly paid and accurately calculated.

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 D

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