

# Lyons Central School District

## Payroll

SEPTEMBER 2022



OFFICE OF THE NEW YORK STATE COMPTROLLER  
Thomas P. DiNapoli, State Comptroller

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# Report Highlights

## Lyons Central School District

### Audit Objective

Determine whether Lyons Central School District (District) officials ensured the District accurately paid employees' salaries and wages.

### Key Findings

District officials did not ensure employees' salaries and wages were always paid accurately. As a result:

- Two employees were paid rates inconsistent with Board authorized rates or collective bargaining agreements (CBAs), resulting in one employee receiving additional compensation of \$4,940 and one employee being underpaid \$731.
- Leave time was not always accrued in accordance with employment contract (contract) or CBA provisions, which resulted in one employee accruing two additional sick days and one employee not being credited 9.5 hours of compensatory time.
- The payroll supervisor was responsible for all aspects of processing payroll including affixing the Treasurer's signature to checks with limited oversight.

### Key Recommendations

- Ensure that employees are paid in accordance with approved salaries and/or applicable CBAs and that leave time is accrued in accordance with contracts and CBAs.
- Segregate payroll duties or implement adequate compensating controls, and ensure the Treasurer maintains control of their signature.

District officials generally agreed with our recommendations and indicated they would take corrective action.

### Background

The District serves the Towns of Phelps in Ontario County; Junius in Seneca County; and Arcadia, Galen, Lyons, Rose and Sodus in Wayne County. The District is governed by a seven-member Board of Education (Board) responsible for the general management and control of educational and financial affairs.

The Superintendent of Schools (Superintendent) is the chief executive officer and is responsible, along with other administrative staff, for the day-to-day management of the District under the Board's direction.

The Assistant Superintendent for Business (ASB) oversees the District's business operations. The District has a payroll supervisor who is responsible for payroll processing duties.

#### Quick Facts

Adopted Budget	\$25.3 million
Payroll Appropriations	\$9.3 million
Total Salaries/Wages Reviewed	\$790,824
Employees	328

### Audit Period

July 1, 2020 – April 8, 2022

# Payroll

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## How Should School District Officials Ensure That Salaries and Wages Are Accurately Paid?

Payroll makes up a significant portion of a school district's operating costs. Therefore, school district officials should establish procedures to ensure that employees are paid the salaries and wages authorized by the school board. A school board should establish and approve all salary and hourly wages as part of a CBA, individual contract or resolution. The terms and conditions of all employment agreements should be clearly communicated to those responsible for payroll processing.

Furthermore, leave accruals represent time off earned by employees for time worked. School district officials are responsible for ensuring that employee leave benefits are accurately accounted for so that employees accrue and use only the leave to which they are entitled.

Additionally, payroll authorizations should be segregated from payroll processing and check distribution. Individual payroll amounts should be traceable to authorization documents and supported by time and attendance records. Any changes in employment status or salary and wage rates should be properly authorized, approved and documented to support the changes. Before checks are distributed, payroll registers or similar records should be reviewed and independently certified to provide oversight of the payroll process. Without properly segregating duties and reviewing and certifying records, school district officials cannot ensure the school district has accurately paid employees' salaries and wages.

## District Officials Did Not Always Ensure Employees Were Paid Accurately

We examined the annual gross salary and wages, totaling \$683,657, and supplemental payments, totaling \$107,167, paid to 50 employees from July 2020 through March 2022, to determine whether employees were paid accurately based on authorized rates. While we found that most employees were paid in accordance with authorized rates from CBAs, salary notices and/or Board resolutions, there were some discrepancies.

- One employee was compensated at a per diem rate during the 2021-22 school year that exceeded the Board authorized substitute teacher rate, resulting in additional compensation of \$4,940. When we questioned what this additional compensation was, District officials said this individual was hired as a long-term substitute and explained that historically long-term substitutes have been paid a per-diem rate equivalent to the average daily

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...[M]ost employees were paid in accordance with authorized rates. ...

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rate of a newly hired teacher, rather than the Board-approved per diem substitute rate. However, a pay rate for long-term substitutes has not been formally established by the Board. Furthermore, email documentation between District officials regarding the employee's appointment as a long-term substitute and the agreed upon compensation rate exist in the email system and was provided at the exit discussion but was not provided to the payroll supervisor or maintained in the employee's personnel file.

- One employee was incorrectly compensated for overtime pay during the 2020-21 school year. This employee's overtime pay was calculated using their 2019-20 base rate instead of their 2020-21 base rate. This resulted in a total underpayment of \$731.

When District officials do not ensure that employees are paid according to authorized salaries and wages, there is a risk that employees will be paid more or less than they are supposed to be paid.

### **District Officials Did Not Always Ensure That Leave Accruals Were Accurately Accrued**

Depending on which contract or CBA an employee is covered by, they are typically eligible to earn vacation time, sick time, personal time and in some circumstances, compensatory time. The District Clerk is responsible for tracking leave accruals in the system, and the use of leave time is tracked in the system by department heads. We reviewed leave accruals for 12 employees who were authorized to earn vacation leave time to determine whether leave benefits were accurately accrued and authorized in accordance with respective CBAs and contracts.

We identified two employees in which discrepancies occurred. Specifically, one employee was improperly granted two additional sick days at the beginning of the 2021-22 school year, and another employee was not credited with 9.5 hours of compensatory time which was earned and appropriately approved. When the audit team made officials aware of these discrepancies, officials made the appropriate corrections to the accruals. When accruals are not properly tracked the District risks not accurately compensating employees when leave time is used or paid out.

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## District Officials Did Not Ensure Adequate Segregation of Duties Over Payroll Processing

Officials did not adequately segregate payroll duties or establish sufficient compensating controls over the payroll process. The Board approves new positions, authorizes employee hiring and approves employee compensation through CBAs, contracts and Board policies and resolutions. The payroll supervisor handles all aspects of payroll processing, including entering new employee information into the financial system (system), processing payroll biweekly, printing physical checks and releasing the direct deposit each pay period. Additionally, since the District did not have a human resources department during the audit period, the payroll supervisor was also responsible for many human resources functions like entering new employees and updating salary information in the system.

Furthermore, the Treasurer did not maintain control over their signature as it was stored electronically within the system's financial module, which allowed anyone with financial module check printing rights to affix the Treasurer's signature to physical payroll checks. While a payroll certification is performed for each payroll period by the Superintendent, this internal control was found to be inadequate in mitigating these payroll process control deficiencies identified, as the certification process only provides a cursory review of the payroll data prior to the payroll being sent out. Without adequate segregation of duties or other mitigating controls, there is an increased risk that errors or unauthorized changes could occur and go unnoticed, resulting in employees being paid incorrectly.

During the course of our audit fieldwork, District officials implemented several actions which will help to remediate some of the concerns addressed in this audit report. For example, as of March 2022, the District hired a Director of Human Resources and Grant Operations that will take over some of the responsibilities previously performed by the payroll supervisor. This will help to more adequately segregate the duties related to payroll processing and human resources. In addition, when we presented District officials with the concern of the Treasurer not controlling their signature, the Board appointed the Wayne-Finger Lakes Board of Cooperative Educational Services (BOCES) central business office (CBO) Manager as the Deputy Treasurer. As of April 2022, the BOCES CBO Manager is a co-signer on the District's accounts for non-payroll disbursements. District officials also stated that appropriate procedures would be developed that required the Treasurer to log into the system to affix their signature to payroll checks.

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## What Do We Recommend?

The Board and District officials should:

1. Consult with legal counsel and determine the appropriate course of action to address the over and under payments identified in this report.

District officials should:

2. Ensure all pay rates are approved by the Board.
3. Ensure employees are paid in accordance with approved salaries and/or applicable contracts and CBAs.
4. Ensure that all employees accrue leave time that they are eligible and entitled to, in accordance with contracts and CBAs.
5. Segregate payroll duties so that one person is not responsible for all aspects of the payroll process, or implement adequate compensating controls.

The Treasurer should:

6. Maintain control of their signature and ensure that the password is not saved in the system.

# Appendix A: Response From District Officials

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## Lyons Central School District

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August 23, 2022

Dear Mr. Grant,

Please accept this correspondence as the official response from the Lyons Central School District relating to the Payroll Audit conducted by your office. The district welcomes the recommendations that were made regarding improving our payroll processes and have already made corrections prior to the audit report being issued. We are committed to continual improvement with all of our accounting processes and maintaining our fiscal stability and appreciate the findings that will aid us in this endeavor. The Board of Education and the District Administration will develop the required corrective action plan based on the recommendations made by your office. The district is grateful to have worked with your knowledgeable and professional staff during the time that they were conducting the audit.

Sincerely,

  
Martha L. Bailey, President  
Lyons Board of Education

## Appendix B: Audit Methodology and Standards

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We conducted this audit 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. To achieve the audit objective and obtain valid audit evidence, our audit procedures included the following:

- We interviewed District officials and employees to gain an understanding of the payroll process.
- We reviewed Board resolutions, contracts and CBAs to determine what approved salaries and wages for employees, and authorized leave benefits should be.
- We selected 50 employees District wide, using our professional judgment, to determine the accuracy of compensation paid. Because the payroll department is located in the District office, we selected 100 percent of the District office employees. We then selected the remaining sample by categorizing each employee based on the contract/CBA their position was under and selected 10 percent of each category, focusing on the top earners from each category. We then used our professional judgment to select six of 45 regular payroll dates (13 percent) and one of five out of cycle paycheck dates (20 percent) by selecting dates that ensured each employee in our sample was tested at least once for the period covering July 1, 2020 through March 11, 2022. We recalculated the compensation for each employee based on source documents including timesheets/attendance records, salary and wage notices, and relevant CBAs, contracts and Board resolutions.
- Using the same selection of 50 employees from the compensation testing, we identified 19 employees who were eligible to receive vacation time based on CBAs and contracts. We selected the Superintendent, former Superintendent, the ASB and 50 percent of the remaining employees from each of the CBAs based on title, resulting in a total of 12 employees for which we determined the accuracy of leave accruals. We reviewed leave reports for 2020-21 and 2021-22 to determine whether all leave accruals and use occurred in accordance with CBAs and contracts.

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 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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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.

The Board has the responsibility to initiate corrective action. 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, 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. 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 CAP should be posted on the District's website for public review.

## Appendix C: Resources and Services

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### **Regional Office Directory**

[www.osc.state.ny.us/files/local-government/pdf/regional-directory.pdf](http://www.osc.state.ny.us/files/local-government/pdf/regional-directory.pdf)

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[www.osc.state.ny.us/files/local-government/publications/pdf/cyber-security-guide.pdf](http://www.osc.state.ny.us/files/local-government/publications/pdf/cyber-security-guide.pdf)

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