

Tuxedo Union Free School District

Payroll and Leave Accruals

AUGUST 2022



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

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Report Highlights

Tuxedo Union Free School District

Audit Objective

Determine whether Tuxedo Union Free School District (District) officials ensured employees' payroll payments and leave accruals were accurate, properly approved and supported.

Key Findings

District officials did not ensure employees' payroll payments and leave accruals were accurate, properly approved and supported. We attribute the audit findings to inadequate Board oversight, policies and procedures and segregation of duties. As a result:

- District officials overpaid (or potentially overpaid) 30 employees a total of \$113,564 in payroll and leave accrual payments, including \$47,673 in overpayments to the Interim Superintendent. The Interim Superintendent was responsible for certifying the payroll accuracy.
- Thirty-six of the 104 full-time and part-time employees were not covered under a collective bargaining agreement (CBA), employment contract or Board resolution. As a result, payroll staff were unable to interpret what benefits employees are entitled to receive and may be improperly providing benefits to employees.

Key Recommendations

The Board and officials should:

- Ensure all salaries and hourly wages are established and approved by position, individual or part of a CBA.
- Establish procedures to ensure all leave accruals are reviewed annually to ensure the amount credited to each employee is accurate.

District officials generally agreed with our recommendations and plan to initiate corrective action.

Background

The District is located in the Town of Tuxedo in Orange 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.

Quick Facts

2020-21 General Fund Expenditures	\$12.9 million
2020-21 General Fund Payroll and Benefits	\$8.7 million
Employees (Full-time and Part-time)	104

Audit Period

July 1, 2019 – June 30, 2021

Payroll and Leave Accruals

Payroll and payroll related costs represent a significant portion of the District's annual expenditures. As such, District officials must ensure employees are compensated according to board authorizations, individual employment contracts and collective bargaining agreements (CBA). The District has three CBAs, multiple individual employment contracts and Board resolutions that detail employees' salaries and benefits. The CBAs, contracts and resolutions include provisions for eligible employees to earn and use leave time, including vacation, personal, sick and bereavement leave.

The District's payroll and benefits totaled \$8.7 million in fiscal year 2020-21, or 68 percent of the District's \$12.9 million general fund expenditures for the fiscal year. The size of the District's payroll and benefit costs highlight the importance of ensuring that payroll payments and leave accruals are accurate, properly approved and supported.

How Should the Board and Officials Provide Oversight of Payroll Functions?

A board should adopt policies and oversee that officials develop procedures to ensure salaries and leave accruals are accurate, properly documented and authorized. All pay rates, stipends and payouts should be in compliance with a CBA, employment contract or board resolution. Additionally, the terms and conditions of all employment agreements and policies should be clearly documented and communicated to those responsible for processing payroll.

An effective system of internal controls provides for the segregation of duties so that no individual controls all phases (e.g., authorization, recordkeeping, processing and custody) of a transaction. Duties should be segregated so the work of one employee is routinely verified during another employee's regular duties. Separating duties and responsibilities reduces the risk of errors or irregularities from occurring and going undetected. For example, the same employee should not enter new employee information (e.g., names, addresses, social security numbers), pay rates and deductions into the computerized payroll system, process the payrolls, prepare and distribute paychecks, sign payroll checks and reconcile the payroll bank account. When it is not practical to segregate duties because of limited staff resources, the board should ensure officials establish compensating controls, such as a supervisor periodically reviewing the work in question.

All pay rates, stipends and payouts should be in compliance with a CBA, employment contract or board resolution.

The Board and Officials Did Not Provide Adequate Oversight of Payroll Functions

The District has a Board-adopted general policy manual for personnel with a brief discussion on compensation. However, the Board did not adopt policies and

officials did not develop procedures that provide guidance and establish clear job functions for employees who process payroll and maintain time and attendance records. Furthermore, payroll duties were not separated and compensating controls were not implemented to reduce the risk of errors and irregularities going undetected. As a result, the District overpaid payroll and leave accruals totaling \$96,748, and has a risk of overpaying an additional \$16,816 for inaccurate unused leave accruals if used by the employees. The errors and irregularities occurred due to inadequate Board oversight, policies and procedures and segregation of duties. Additionally, specific examples of the errors identified in our sample are discussed in each section of the report.

Terms of Employment – The District’s CBAs, individual employment contracts, Board resolutions and Board-adopted policies stipulate the terms and benefits for all employees, including provisions related to earning and using sick, personal, bereavement and vacation leave accruals. We reviewed the CBAs, Board resolutions and Board-adopted policies to determine whether they provide adequate guidance and covered all employment titles at the District. We found that seven of the 25 full-time titles and all 10 part-time titles were not covered under an employment agreement or resolution (Figure 1).

Figure 1

Employee Titles Not Covered by an Employment Agreement or Resolution	
Full-Time Titles	Part-Time Titles
Account Clerk	Bus Driver
Audio/Visual Repair	Custodian
Business Administrator	Food Service
Deputy Treasurer	Greeter
Human Resource Coordinator (Coordinator)	Monitor
Interim Business Manager	Nurse
Treasurer	Payroll Clerk
	Secretary
	Substitute Teacher
	Teacher’s Aide

We spoke with four Board members and the Interim Business Manager, Deputy Treasurer and Coordinator, and they were not aware these employment titles were not covered by an employment agreement or resolution. Additionally, the Deputy Treasurer was not always provided the CBAs, individual employment contracts, Board resolutions and Board-adopted policies for processing payroll. This contributed to errors resulting in the overpayment of employees’ payroll and leave accruals.

The lack of comprehensive written payroll policies and procedures, CBAs, individual employment contracts and Board-adopted resolutions covering all

classification of employees caused misunderstanding and misinformation about payments, benefits, rights, duties and responsibilities of employees and District officials. As a result, payroll staff were unable to interpret what benefits employees are entitled to and may be providing benefits the employees are not entitled to.

Segregation of Duties – The Board and District officials did not implement effective controls to ensure proper segregation of duties over the payroll function. The Treasurer and Interim Business Manager performed all phases of the payroll function with no supervisory review or compensating controls, including:

- Entering, modifying and deleting employees in the financial application,
- Processing payroll,
- Making withholding remittances,
- Signing and distributing payroll checks, and
- Reconciling the payroll bank account.

The Board did not review the work performed, nor did it designate any official to conduct a review to mitigate the lack of segregation of duties within the payroll process because they had not thought of it.

The combination of the lack of Board oversight and inadequate segregation of duties resulted in a payroll process with significant errors and/or irregularities.

How Should District Officials Ensure that Payroll Payments Are Accurate and Properly Approved?

A well-designed payroll processing system requires policies and procedures to provide guidance and oversight for employees who process payroll and maintain time and attendance records. These policies and procedures help ensure that payroll is processed consistently and accurately; hours worked are accurately reported; and leave accruals, such as vacation, personal and sick leave, are properly recorded and used. Detailed time reports should be prepared by employees and reviewed by supervisory personnel who have direct contact with the employees. Supervisors should sign or initial employee time reports as evidence of their review and approval of hours worked.

Employee Payroll Payments Were Not Always Accurate

We reviewed 1,200 payroll checks totaling \$1.89 million paid to 25 full-time and 10 part-time employees, each in different titles, during the 2020-21 fiscal year. We found that 21 full-time and nine part-time employees were paid with 405

The Board did not review the work performed, nor did it designate any official to conduct a review to mitigate the lack of segregation of duties within the payroll process. ...

checks totaling \$363,241 with inaccurate gross pay amounts. We recalculated the gross pay amounts and determined the District overpaid \$69,624 to employees. Specifically:

- The Interim Superintendent, who was responsible for certifying the payroll accuracy, was overpaid by \$47,673. She was paid for two positions (Interim Superintendent and Director of Student Services); however, a Board resolution said she was eligible to receive only the Interim Superintendent salary once she started that position. Furthermore, no District official was aware this error occurred until we brought it to their attention. District officials agreed with our finding and have begun the process of recouping the overpayment.
- Twenty-one full-time employees were overpaid \$55,649 because inaccurate pay rates were used. In most cases, these employees were paid at a new pay rate before it was authorized. For example, if a pay raise took effect in the middle of the pay period, the raise was applied to the entire pay period instead of the applicable dates.
- Ten full-time employees were overpaid \$27,124 as a result of employees being paid for leave time that they were either not entitled to or had been exhausted.
- Nine part-time employees were overpaid \$13,975; some employees had multiple issues. Specifically, six of these part-time employees were overpaid using inaccurate pay rates because they received raises without the review and approval of the Board. The Board did not authorize the raises and was not aware they were given to these employees. Additionally, eight of these part-time employees were overpaid for days and/or hours not worked, mostly due to employees being paid for lunch and paid days off they were not entitled to. For example, the part-time employees were paid for three days during winter break when school was closed.

The Interim Business Manager said the high turnover of key staff in the business office and lack of clear guidance and direction significantly increased the risk of employees being paid at inaccurate rates and/or hours/days.

Employees' Time Was Not Tracked or Approved

We determined 25 full-time and seven part-time employees were paid with 781 checks totaling \$1.76 million for time not tracked. In addition, we found that 25 full-time and 10 part-time employees were paid with 1,077 checks totaling \$1.85 million with instances where the time sheets and reports were not approved by supervisors. The District did not require full-time employees to complete time sheets or reports documenting their days and hours worked, including leave charges. The only instance when a full-time employee will complete a time

sheet is to document hours worked for extra pay or overtime pay. Hourly part-time employees were required to submit time sheets or reports for supervisory approval. However, we found that supervisors were not reviewing and approving time sheets and reports for part-time employees, overtime pay and extra pay (Figure 2).

FIGURE 2

Time Sheet/Report Example

Hourly/Extra Time/Overtime _____ Week Ending: 10/23

**TUXEDO UNION FREE SCHOOL DISTRICT
PAYROLL AUTHORIZATION SHEET***

Name: [REDACTED] Position: _____

MONDAY Date: <u>10/19</u>	Time In <u>3</u>	Total # Hours <u>4</u>
	Time Out <u>7</u>	
TUESDAY Date:	Time In <u>3</u>	Total # Hours <u>4</u>
	Time Out <u>7</u>	
WEDNESDAY Date:	Time In <u>3</u>	Total # Hours <u>4</u>
	Time Out <u>7</u>	
THURSDAY Date:	Time In <u>3</u>	Total # Hours <u>4</u>
	Time Out <u>7</u>	
FRIDAY Date: <u>10/23</u>	Time In <u>3</u>	Total # Hours <u>4</u>
	Time Out <u>7</u>	
SATURDAY Date:	Time In	Total # Hours
	Time Out	
SUNDAY Date:	Time In	Total # Hours
	Time Out	
		GRAND TOTAL HOURS: <u>20</u>
		OVERTIME TOTAL HOURS: <u>0</u>

Employee's Signature: [REDACTED]

Supervisor's Signature: _____ Date: 10/30

Approval for Payment: _____ Date: _____

*Signed Payroll Authorization forms must be submitted to the Business Office every Monday.

Jan. 2004

Although the District changed to an electronic time system during our audit period, the new system has no approval process for time sheets or reports for extra pay, overtime pay and hourly part-time employees by the supervisors. The Interim Business Manager and Deputy Treasurer said that due to the high turnover rate, they did not consider having supervisors review time sheets. However, the turnover in personnel does not impact the responsibility of the District to ensure employees are paid at the current rate and for work actually performed. During our audit, the District began requiring that time sheets and reports be submitted and approved by supervisors for extra pay, overtime pay and hourly part-time employees.

Without supervisory review and approval of employees' time sheets and reports, there is no assurance that employee hours worked are accurate, and increases the risk employees could be paid for time not worked.

How Should District Officials Ensure that Employees' Leave Accruals Are Accurate, Properly Approved and Supported?

Leave accruals represent paid time off earned by employees. District officials should periodically verify the accuracy of employee leave records, including leave time earned and used, and regularly communicate leave accrual balances to employees. Officials should maintain sufficient records to ensure employees accrue, use and receive pay only for time they are entitled to.

District officials should develop written procedures to ensure that leave accruals are earned and carried over from year to year in accordance with District policies and CBAs; that leave used is properly deducted from leave accrual balances; and that payments made to employees for unused accruals when they leave District employment are based on accurate leave accrual records.

The District should have a process to document advance requests and approvals to use accrued leave time and to document absences covered by the use of leave accruals. Documentation of leave requests and approvals provide an audit trail for the use of accrued leave credits and assist with the preparation of accurate gross payroll amounts for individual employees.

Leave Accrual Records and Time-Off Forms Were Not Always Accurate, Approved and Supported

The business office is responsible for maintaining leave accrual and usage records for all employees. Once a year, around October, employees and supervisors receive a report with the balance of accruals for each employee. However, leave balances are not communicated to employees and supervisors regularly. The District did not have procedures in place to monitor leave accruals.

During our review of the leave accrual process, the staff were unclear who was responsible for carrying over leave balances from year to year and inputting initial balances at the beginning of the year.

We examined all 208 leave accrual records carried over from the prior year and 434 time-off forms for the 25 full-time employees for the 2020-21 fiscal year. We found the following instances where leave accrual records and time-off forms were not accurate, approved and supported, resulting in the District overpaying employees by \$27,124 and the risk of overpaying an additional \$16,816 related to inaccurate unused leave accruals.

- Eighteen full-time employees had 108 instances where leave time (e.g., sick, vacation and bereavement leave) were not properly accrued at the beginning of the year and throughout the year in accordance with CBAs, Board resolutions and employment contracts. For example, employees covered under the Tuxedo Employees Union (TEU) contract should receive monthly sick leave accruals. However, they are given the entire year's accrual at the beginning of the year. Also, personal leave balances at the end of the year were converted to sick leave and employees were given bereavement accruals; this conversion of accruals was not Board approved. Additionally, all full-time employees not covered under a CBA, personal contract or Board resolution were given vacation leave although there was no Board authorization to do so.
- Information on the electronic leave forms was not correctly transferred from the attendance software to the financial application. The Data Collector had to manually enter leave charges into the financial application for payroll and did not always do so when leave was taken. As a result, 39 leave time charges for eight full-time employees were not properly deducted from leave balances.
- Three employees were paid for vacation leave that was recorded in the attendance software but not entered in the financial application.
- Two hundred and sixty-one leave forms (mostly sick leave) for 22 full-time employees were not properly approved. The leave forms were entered into the attendance software by an employee or the Coordinator, and then approved by the Coordinator or the employee's supervisor.

District officials said errors occurred due to the high turnover rate and no clear job duties. The lack of procedures and a functioning control system to approve leave time and accurately record employee absences allowed employees to be paid or potentially be paid for leave time to which they were not entitled.

What Do We Recommend?

The Board should:

1. Adopt policies and ensure officials develop procedures that provide guidance and oversight, and establish clear job functions for employees who process payroll and maintain time and attendance records.
2. Either segregate payroll duties amongst various staff or develop and implement mitigating controls to provide oversight over the payroll functions.
3. Ensure all employee titles, salaries, hourly wages and benefits are covered by a CBA, individual contract, or Board resolution.

District officials should:

4. Have someone independent of the payroll process prepare the payroll bank reconciliation. If this is not feasible, establish compensating controls to mitigate risk.
5. Develop a process to ensure that bargaining agreements are clearly communicated to all employees, and specifically employees processing payroll and tracking leave accruals.
6. Establish procedures to ensure all pay rates are accurately entered into the financial system and periodically verify the pay rates are accurate.
7. Ensure employees are only paid for hours worked and leave entitled to, and time sheets are reviewed by supervisors to ensure payroll is accurate and adequately supported.
8. Establish procedures to review leave accruals annually, ensure the amount credited to each employee is accurate, and all leave used is properly deducted from leave accruals.
9. Ensure all leave requests are properly approved and supported, and employees only use leave they are entitled to.
10. Recover overpayments identified in the report, if applicable.

Appendix A: Response From District Officials



TUXEDO UNION FREE SCHOOL DISTRICT

Jeffrey T. White
SUPERINTENDENT OF SCHOOLS

Roy Reese
ASSISTANT SUPERINTENDENT FOR CURRICULUM & INSTRUCTION/SECONDARY PRINCIPAL

Dolores Terlecky
GEORGE GRANT MASON ELEMENTARY SCHOOL PRINCIPAL

Office of the State Comptroller
Local Government and School Accountability Division
Newburgh Regional Office
Ms. Dara Disko-McCagg, Chief Examiner
33 Airport Center Drive, Suite 103
New Windsor, New York 12553

Dear Ms. Disko-McCagg,

The Tuxedo Union Free School District is in receipt of the Draft Report of Examination for the period of July 1, 2019-June 30, 2021 regarding Payroll and Leave Accruals. On behalf of the Board of Education and District Administration, I want to thank the Comptroller's audit staff for their courtesy, professionalism and help in identifying and addressing the concerns noted in the report. Being new to the District, as are many of the current school board members, this report will be invaluable in helping us design a highly effective and efficient business office, particularly in the area of payroll/human resources processes.

The District has already begun working on the issues identified and developing policies, regulations and procedures to mitigate or prevent any such mishaps in the future. We will be preparing a detailed corrective action plan (CAP) that will address each recommendation and provide it to your Office within the timeline specified in your handbook.

Sincerely,



Jeffrey T. White

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Appendix B: Audit Methodology and Standards

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 reviewed Board meeting minutes and Board-adopted policies.
- We interviewed District officials to gain an understanding of the processes and procedures over payroll processing and the causes for exceptions noted.
- We used our professional judgment to select 10 part-time employees, each in a different title, to determine the accuracy of pay rates, days/hours worked, and gross pay, and whether payroll was properly approved and adequately supported.
- We used our professional judgment to select 25 full-time employees, each in a different title, to determine the accuracy of pay rates, days worked and gross pay, and whether payroll was properly approved and adequately supported. We selected the same 25 full-time employees to determine whether leave was properly accrued at the beginning of the year, properly deducted from balances throughout the year, not exhausted during the year, and properly approved and supported.
- We reviewed the listing of all employees paid from the payroll check register report to determine whether all employees listed on the payroll matched the employee master file.
- We reviewed employee pay rates in 2020 and 2021 to determine whether they were approved by Board resolution or within the adopted budget and whether they were accurate.
- We reviewed all direct deposit bank accounts to determine whether there were duplicates.
- We reviewed the financial application audit report to determine whether all changes for the months of July 2020, January 2021 and June 2021 were accurate, properly authorized and properly supported.
- We listed employee title and date of tenure per Board resolutions to document the employee turnover and responsibilities of employees in the payroll function.
- We listed all employee titles to document the employee titles covered under the CBAs, individual employment contracts and Board resolutions.

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.

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

Regional Office Directory

www.osc.state.ny.us/files/local-government/pdf/regional-directory.pdf

Cost-Saving Ideas – Resources, advice and assistance on cost-saving ideas

www.osc.state.ny.us/local-government/publications

Fiscal Stress Monitoring – Resources for local government officials experiencing fiscal problems

www.osc.state.ny.us/local-government/fiscal-monitoring

Local Government Management Guides – Series of publications that include technical information and suggested practices for local government management

www.osc.state.ny.us/local-government/publications

Planning and Budgeting Guides – Resources for developing multiyear financial, capital, strategic and other plans

www.osc.state.ny.us/local-government/resources/planning-resources

Protecting Sensitive Data and Other Local Government Assets – A non-technical cybersecurity guide for local government leaders

www.osc.state.ny.us/files/local-government/publications/pdf/cyber-security-guide.pdf

Required Reporting – Information and resources for reports and forms that are filed with the Office of the State Comptroller

www.osc.state.ny.us/local-government/required-reporting

Research Reports/Publications – Reports on major policy issues facing local governments and State policy-makers

www.osc.state.ny.us/local-government/publications

Training – Resources for local government officials on in-person and online training opportunities on a wide range of topics

www.osc.state.ny.us/local-government/academy

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