

East Irondequoit Central School District

Payroll and Leave Accruals

NOVEMBER 2019



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

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Report Highlights

East Irondequoit Central School District

Audit Objective

Determine whether employees received proper wages and overtime payments in accordance with contract terms and if leave was properly tracked.

Key Findings

- Payroll calculation errors cost the District \$3,638 and errors totaling \$9,100 occurred with manual leave accrual entries. In addition, five employees had 21 time sheets lacking proper approvals and two employees had eight time sheets that were missing.
- The former payroll supervisor worked overtime hours that were not supported. Also, she did not record taking a lunch break on 297 of 315 days, resulting in overtime or extra pay.
- Errors occurred in the leave records maintained for 13 of the 26 (50 percent) employees tested.

Key Recommendations

District officials should:

- Consider automating the time keeping system to reduce calculation errors.
- Obtain proper approved time sheets prior to paying employees.
- Ensure overtime is approved prior to employees working overtime and monitor lunch breaks.
- Develop and implement written procedures to ensure the accuracy of employee leave records.

District officials disagreed with certain aspects of our findings and recommendations, but indicated they planned to implement our recommendations. Appendix B includes our comments on the issues raised in the District's response letter.

Background

The East Irondequoit Central School District (District) serves the eastern portion of the Town of Irondequoit in Monroe County.

A nine-member Board of Education (Board) is responsible for the general management and control of the District's financial and educational affairs. The Superintendent of Schools is the 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 Deputy Superintendent oversees business operations and the Assistant Superintendent of Human Resources oversees personnel administrative functions.

Quick Facts

Employees	700
Enrollment	3,000
2017-18 Wages	\$32.9 million
2017-18 Time and a Half Paid to Employees	\$272,000

Audit Period

July 1, 2017 – February 28, 2019

Payroll

How Does a District Accurately Pay Employees' Salaries and Benefits?

Payroll wages typically represent a significant portion of a district's annual expenditures. As such, district officials must ensure employee compensation is made according to board authorizations, collective bargaining agreements (CBAs) and individual contracts, which set forth employees' salaries and benefits to be paid.

Additionally, because payroll costs represent a significant portion of a district's operating expenditures, it is important that policies and procedures are developed and implemented to ensure pay, overtime, shift differential rates, longevity and health insurance buyout payments are calculated and paid correctly to avoid errors and opportunities for fraud.

Employee Compensation Was Not Always Accurate

The District processes its payroll internally with a two-person payroll department. Teachers are salaried and therefore only need to report absences or complete paperwork in the event they are due extra payments (i.e., coaching, chaperoning, club advisor). Buildings and grounds employees, bus drivers and most cafeteria employees use their key fobs to sign in and out using time clocks. Other District employees fill out paper time sheets on which salaried employees mark present or absent while hourly employees write in start and end times. All time sheets should be signed by the employee and their supervisor.

Although the Board has not adopted payroll policies, the Deputy Superintendent told us that employees are required to document start and end times for overtime and the reason the overtime was worked.

District officials did not effectively ensure the accuracy of employee salaries and wages paid. We examined wages paid and leave time used for 28 employees for the 2017-18 year totaling \$2.3 million to determine whether wages were paid according to the respective CBAs or individual employment contracts. We found that 12 of 13, 92 percent, non-exempt employees selected with paper time sheets¹ had payroll errors. Also, one non-exempt employee with manual electronic time sheets had errors.² We identified the following payment errors:

1 Our sample of 28 employees included 13 non-exempt employees with paper time sheets. All but one had at least one error. There was one non-exempt employee that submitted electronic time cards.

2 One employee in our sample had an electronic time sheet but she input the hours. The hours were not based on a badge system.

Figure 1: Payroll Calculation Errors

Type of Error	Number of Errors	Cost of Errors
Unsupported Hours^a	31	\$1,993
Wrong Pay Rate	10	\$760
Math Errors	12	\$304
Underpayments	9	\$581
Total	62	\$3,638

a Excludes former Payroll Supervisor

Additionally, we examined time sheets for proper approvals. We found that two of four (50 percent) exempt employees and four of 14 (29 percent) non-exempt employees reviewed with paper time sheets were missing a total of eight time sheets and 21 time sheet approvals as follows:

Figure 2: Missing and Unapproved Time Sheets

Title	Missing Time Sheets	Time Sheets Lacking Approvals
Former Superintendent	-	12
Assistant Superintendent of Human Resources	2	4
Payroll Clerk	6	-
Treasurer	-	1
Medicaid Coordinator	-	2
Network Administrator	-	2
Total	8	21

When District officials do not have comprehensive written payroll policies and procedures for processing and monitoring payroll payments, there is an increased risk that payments will be made that are inaccurate or unsupported.

How Should Officials Monitor and Control Overtime?

While overtime pay may be an expected and sometimes necessary cost of providing necessary services, it should be carefully monitored and controlled to help minimize expenditures. Adequate internal controls over overtime include written policies and procedures that address how and when overtime may be incurred and the documentation necessary to support the time worked, including whether employees may earn overtime while working from home or during lunch breaks. In addition, controls should require documentation of prior approval and written justification of overtime worked.

The Board Did Not Adopt Overtime Policies and Officials Did Not Ensure Overtime Procedures Were Followed

We found that the Board did not adopt any overtime policies and District officials did not develop written overtime procedures. The Deputy Superintendent stated that employees were required to document what they worked on during overtime hours and start and end times should be recorded on time sheets. He also stated that prior approval of overtime was not required if appropriations are available in the department's budget.

While reviewing the 28 employees' time sheets for accuracy, we also reviewed overtime hours. We found 22 overtime-eligible employees were paid a total of \$171,553 in overtime³ pay. The two Payroll Department employees were included in our sample.

We found that the payroll clerk did not work any overtime while the former⁴ payroll supervisor was paid \$13,688 in overtime during the 2017-18 year. Due to abnormalities on her time sheets in our sample, we conducted an in-depth review of her 2017-18 time records. We found that during 2017-18 she had the opportunity to take a lunch break (i.e. worked full days) a total of 189 days. However, she recorded that she did not take a lunch break 180 of those days.⁵ Instead, that half hour per day was generally paid at time and a half or the extra straight pay rate. The Assistant Superintendent of Human Resources stated that employees are occasionally allowed to work through lunch but it should not be a regular occurrence. Additionally, we found that about 171 hours of the former payroll supervisor's overtime hours were worked from home in the evenings. The Deputy Superintendent told us these evening overtime hours were for paperwork. However, the District was unable to provide support that these hours were actually worked. The Deputy Superintendent signed off on her time sheets.

Due to concerns and the limited availability of corroborating records, we further expanded our payroll testing of the former payroll supervisor's time records into the 2018-19 fiscal year.⁶ We reviewed computer log records and compared the log-in and log-out times to the times recorded on her time sheets. We found that her log-in times generally agreed with the start times recorded on her time sheets. However, we found that her log-out times were generally between 3:00pm and 3:30pm while the time on her time sheet was generally recorded at an end time

3 We included pay for extra hours at time and a half and pay for extra hours at the employees' straight rate of pay (if they had used leave and actual time worked was under 40 hours).

4 The former payroll supervisor resigned January 24, 2019.

5 New York State Labor Law Section 162 requires a meal break of 30 minutes for an employee that works more than six hours per day in this type of position.

6 We reviewed key fob data for July 13, 2018 through December 6, 2018. We reviewed computer log data for May 7, 2018 through December 6, 2018.

of 4:00pm to 4:30pm. The District was unable to provide support that these hours were worked. The former payroll supervisor told us that employees are allowed to add unused breaks and lunch to the end of their day. However, the contract the former payroll supervisor followed provided for an unpaid half-hour lunch and a 15 minute morning and afternoon break.

The Assistant Superintendent of Human Resources told us that it has been the District's practice to occasionally allow employees to use their afternoon break at the end of the day to leave early but not the morning break. Additionally, an unpaid lunch cannot be used at the end of the day to leave early or to be paid as overtime. Similar to 2017-18, we reviewed the former payroll supervisor's lunch break activity for 2018-19 and found that of 126 available days she recorded a lunch break on nine of these days. We reviewed her log-in and log-out computer data for log-out times around the lunch break time period for log-out periods that were 30 minutes or more and found that there were 39⁷ instances during this time period. Therefore, it appears the former payroll supervisor was paid for at least 30 more lunch breaks than to which she was entitled.

In the summer, the former Superintendent authorized employees to leave work at 2:30pm on Fridays. The Deputy Superintendent told us that the expectation was that employees would start working at their regular time but would be able to leave at 2:30pm if their work was complete. We found that the former payroll supervisor arrived an hour later on Fridays in the summer⁸ and was generally logged off her computer by 2:15pm. Although, he signed off on her timesheets, the Deputy Superintendent stated that he would not have known that she was arriving later because he does not start until 8:00am.

Furthermore, our review of District timecards found that employees did not always record the reasons that they were working overtime. We found that the eight employees that used their key fob to sign-in and sign-out each day did not record reasons why overtime was worked. We found that the former payroll supervisor lacked overtime reasons on nine days out of the dates reviewed for 2018-19. We also found that the District's network administrator regularly worked overtime without documenting a reason. Without proper documentation, District officials cannot be sure that adequate services are received for the cost.

What Is an Effective Leave Accrual Process?

Leave accruals represent time off earned by employees. The board is responsible for ensuring that employee leave benefits are accurately accounted for so that employees use only the leave to which they are entitled. To ensure accuracy,

⁷ Some data was missing. Therefore, some dates during this time period could not be reviewed.

⁸ Her usual start time was 7:00am but on Fridays in the summer her time sheet reflected a start time of 8:00am.

there should be written procedures and a review of all data input into the district's electronic records. When employees use vacation or sick time, supervisors should approve the leave in advance of it being used, when possible.

Some district's CBAs and contracts allow employees to accrue overtime as compensatory time. Similar to vacation or sick time, supervisors should approve compensatory time in advance of it being used.

Leave Accrual Records Are Not Accurate

The District has no established procedures and does not provide oversight of the Payroll Department's input of leave usage into the electronic software. The Payroll Department is responsible for maintaining leave accrual and usage records for all employees. At the beginning of the year, leave balances are rolled over, vacation buyouts are computed and deducted from leave balances and new leave accruals are added. Throughout the year, the Payroll Department inputs leave usage into the electronic system based on time sheets received from the various departments. Employees can check their leave balances via an online portal.

We tested 26 of the same 28 employees⁹ reviewed in the payroll section of this report for proper handling of leave accruals for 2017-18. We found leave balance errors¹⁰ occurred for 13, or 50 percent, of the employees tested resulting in overstated leave balances of 28 days and 5 hours with a cost to the District of \$8,239.¹¹ We also found instances in which leave was not appropriately added or was charged in error totaling 2 days 7 hours with a cost to the employees totaling \$861. The errors found in the leave records indicate that the system of internal controls over employee accruals is not working effectively. For example, we found:

- The former payroll supervisor did not have 10 hours of vacation leave deducted.¹²
- The Deputy Superintendent did not have five days of vacation deducted but was also overcharged half a day of vacation leave.

When we discussed these discrepancies with District officials, they researched each one to determine if the balances needed to be corrected. They adjusted the records to reflect the absences and correct overcharges.

9 We did not test two of the employees because they are educational staff that do not receive vacation time. Additionally, any leave these two employees take flows through the substitute system.

10 Leave balances include: vacation, sick, personal, weather compensatory time, compensatory time and personal leave.

11 This is the cost of wages only.

12 In our testing for 2018-19, we identified another 11 hours vacation and 17.5 hours sick time that were not deducted from her leave.

When District officials do not have an adequate internal control system in place to accurately record employee leave balances, employees could use more time than allowed or be paid for vacation leave they had already used, increasing the District's costs. District officials could reduce these errors by moving from a manual accrual tracking system to an automated system. If properly set-up, the automated system would automatically add and subtract leave as it is earned and used, thereby reducing human calculation and data-entry errors.

What Do We Recommend?

The Board should:

1. Consult with the District's attorney or outside legal counsel to review the identified overpayments and where appropriate take actions to recover those funds.
2. Establish comprehensive payroll and overtime policies.

The Board and District officials should:

3. Establish comprehensive written procedures for processing and monitoring payroll-related payments to ensure they are accurate, supported and in accordance with CBAs, individual employment contracts or Board resolutions.
4. Establish an overtime policy and procedures and document prior approval and justification for overtime work performed and ensure that employees record start and end times on their time sheets.
5. Develop and implement written procedures for maintaining leave accrual records and ensure that accurate information for accruals is maintained and monitored.
6. Consider using an electronic time keeping and leave accrual system for those employees currently maintaining these records manually.

The Deputy Superintendent should:

7. Communicate overtime, lunch and break rules, policies and procedures to District employees.
8. Ensure that the employees he supervises have properly and accurately computed and recorded overtime and leave usage on their time sheets prior to approving the time sheet.

Appendix A: Response From District Officials



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August 30, 2019

Mr. Edward V. Grant, Jr., Chief Examiner
The Powers Building
16 West Main Street, Suite 522
Rochester, New York 14614-1608

Dear Mr. Grant:

The East Irondequoit Central School District is in receipt of the draft audit report entitled Payroll and Leave Accruals, Report of Examination, 2019M-93, for the 2017-18 school year. Please accept this letter as the School District's Audit Response pursuant to New York State General Municipal and Education law.

As an initial matter, the School District would like to thank the OSC representatives for their recommendations to help us identify opportunities for improvement to our fiscal operations. We are pleased that the audit resulted in no findings of material weakness, operational improprieties, or labor law violations. The wages paid by the School District in the 2017-18 school year exceeded \$32.9 million. The audit found approximately \$12,700 in calculation errors, including unsupported hours or miscalculated leave. These findings reflect a fraction of a percent of the District's overall payroll. As educators we are always striving to do better and are thankful for the recommendations to improve and further strengthen our current payroll systems.

See
Note 1
Page 11

Our written response to the Audit Findings is below.

Audit Recommendation No. 1:

Consult with the District's attorney or outside legal counsel to review the identified overpayments and where appropriate take actions to recover those funds.

Action already taken:

The School District took steps and has recovered the overpayments from District employees. The District reviewed the discrepancies with respect to the other District employees and was able to resolve such discrepancies.

Audit Recommendation No. 2:

Establish comprehensive payroll and overtime policies.

Response:

The District is preparing written payroll and overtime procedures in the form of Administrative Regulations.

Audit Recommendation No. 3:

Establish written procedures for processing and monitoring payroll-related payments to ensure they are accurate, supported and in accordance with CBA's individual employment contracts or Board resolutions.

Response:

The District is preparing written payroll and overtime procedures in the form of Administrative Regulations.

Audit Recommendation No. 4:

Establish an overtime policy and procedures and document prior approval and justification for overtime work performed and ensure that employees record start and end times on their time sheets.

Response:

The School District disagrees that overtime which did not have a written justification was unnecessary for the operations of the District. In response to the recommendation, however, the School District is preparing written payroll and overtime procedures in the form of Administrative Regulations which will include completion of time sheets and prior approval for overtime. The District is also preparing an electronic program for overtime approval which will include identification of basis for overtime.

See Note 2 Page 11

Audit Recommendation No. 5:

Develop and implement written procedures for maintaining leave accrual records and ensure that accurate information for accruals is maintained and monitored.

Response:

The School District is preparing written payroll and overtime procedures in the form of Administrative Regulations which will include maintaining and monitoring leave accrual records.

Audit Recommendation No. 6:

Consider using an electronic time keeping and leave accrual system for those employees currently maintaining these records manually.

Action Already Taken:

The School District is implementing an electronic time keeping system.

Audit Recommendation No. 7:

Communicate overtime, lunch and break rules, policies and procedures to District employees.

Response:

Upon completion of the School District's Administrative Regulations related to payroll and overtime procedures, such Regulations will be communicated to staff.

Audit Recommendation No. 8:

Ensure that the employees [the Deputy Superintendent] supervises have properly and accurately computed and recorded overtime and leave usage on their time sheets prior to approving the time sheet.

Action Already Taken:

Such employees are using electronic time sheets which will prevent math errors in the future. The District is also preparing Administrative Regulations related to time recording.

In closing, the School District welcomes each recommendation of the OSC for improvement. A Corrective Action Plan with additional information regarding the East Irondequoit Central School District's further implementation of such recommendations will be forthcoming.

Sincerely,

Mary E. Grow
Superintendent of Schools

Appendix B: OSC Comments on the District's Response

Note 1

Our audit found significant deficiencies in the District's payroll internal controls including operational improprieties. In fact, the former payroll supervisor resigned from her position the day after being questioned by the audit team. Additionally, by design an audit (including this one) generally samples transactions and does not test an entire population. The fact that there were payroll errors and/or irregularities identified in 19 out of 28 employees tested or 68 percent indicates a severe systemic problem.

Note 2

The report does not state that overtime was unnecessary. It says that the District could not provide support that the hours were actually worked.

Appendix C: 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 CBAs, individual employment contracts, memos of understanding and Board-approved policies and interviewed District officials to gain an understanding of the payroll and leave accrual process.
- We recalculated 2017-18 payroll payments for 28 District employees based on employee's approved gross salaries. We also reviewed these employees' time sheets for proper approvals and overtime hours. We recalculated any pay these employees received above their gross salaries such as overtime, vacation payouts, longevity, etc.
- We used our professional judgment in selecting these 28 employees because their total pay was above their approved annual salaries. Additionally, we selected employees because of their positions at the District (i.e., employees involved in the payroll process).
- We expanded our testing into 2018-19 for the former payroll supervisor because of abnormalities on her 2017-18 time sheets. We compared the times on her time sheets to computer log-in and log-out times. We also requested support for overtime hours worked at home.
- We reviewed leave records for 26 of the 28 employees tested for proper payroll payments. The two teachers were excluded because they do not receive vacation leave. We compared the leave recorded in the system to leave documented on each employee's time sheets. We also reviewed the leave records for proper accrual balances.

We conducted this performance audit in accordance with GAGAS (generally accepted government auditing standards). 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.

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 2116-1(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. We encourage the Board to make the CAP available for public review in the Clerk's office.

Appendix D: Resources and Services

Regional Office Directory

www.osc.state.ny.us/localgov/regional_directory.pdf

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

www.osc.state.ny.us/localgov/costsavings/index.htm

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

www.osc.state.ny.us/localgov/fiscalmonitoring/index.htm

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

www.osc.state.ny.us/localgov/pubs/listacctg.htm#lmgm

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

www.osc.state.ny.us/localgov/planbudget/index.htm

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

www.osc.state.ny.us/localgov/pubs/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/localgov/finreporting/index.htm

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

www.osc.state.ny.us/localgov/researchpubs/index.htm

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

www.osc.state.ny.us/localgov/academy/index.htm

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