



Long Lake Central School District Payroll

Report of Examination

Period Covered:

July 1, 2014 – November 30, 2015

2016M-90



Thomas P. DiNapoli

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State of New York Office of the State Comptroller

Division of Local Government and School Accountability

June 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 Long Lake 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 Long Lake Central School District (District) is located in the Towns of Arietta and Long Lake in Hamilton County. The District is governed by the Board of Education (Board), which is composed of five elected members. The Board is responsible for the general management and control of the District's financial and educational affairs. The Superintendent of Schools 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 one school with approximately 60 students and 35 employees. The District's budgeted appropriations for the 2015-16 fiscal year are \$3.9 million, which are funded primarily with State aid and real property taxes. The District's payroll expenditures totaled approximately \$2.1 million during our audit period. The District's School Business Official is responsible for processing payroll.

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 payrolls were processed accurately?

Scope and Methodology

We examined the District's payroll procedures for the period July 1, 2014 through November 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 have initiated, or 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 Board resolutions, collective bargaining agreements (CBAs) and individual employee contracts. A well-designed system over payroll processing can provide assurance that employees are paid in accordance with Board resolutions and/or contract terms and that transactions are appropriately recorded and authorized by management. 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 compensating controls. These controls include having someone independent of the payroll preparation process compare payroll source documents to payroll registers to ensure they are based on actual hours or days worked and Board-authorized hourly rates or annual salaries.

District officials did not establish adequate procedures for processing payroll. The School Business Official'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; performing transfers between the District's bank accounts for payroll purposes; and preparing and executing the employees' direct deposits.¹ The School Business Official performed all of these duties without sufficient oversight.

The District Treasurer (Treasurer) was responsible for reviewing transfers between the District's bank accounts and printing and signing² employees' payroll checks. However, the Treasurer's limited role related to processing payroll did not provide sufficient oversight of the School Business Official's work to mitigate the risks incurred due to her incompatible duties. The Superintendent also provided an independent review of the payroll process by reviewing and certifying the final payrolls. However, the Superintendent's reviews were not adequate because he did not compare payroll registers to 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

¹ All District employees, except substitutes, receive payroll payments through direct deposit. Payroll payments are made to substitutes through payroll checks.

² The Treasurer signs the checks electronically by entering a password into the financial system to generate her signature on the checks.

to verify whether the School Business Official accurately processed payrolls.

We reviewed all gross pay computations totaling \$650,306³ for 10 employees⁴ during our audit period to verify whether the information entered into the financial system agreed with the time records; pay rates agreed with Board resolutions, employment contracts and CBAs; and gross pay was accurately calculated. Except for a minor discrepancy that 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 School Business Official, 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 increasing management reviews of work performed by the School Business Official.
2. The Superintendent should compare payroll registers to payroll source documents when certifying payrolls to ensure that payments are based on the actual hours or days worked and Board-authorized hourly rates or annual salaries.

³ Gross pay totaling \$483,185 during the 2014-15 fiscal year and \$167,121 during the period July 1, 2015 through November 30, 2015

⁴ See Appendix B for more information on our sampling methodology.

APPENDIX A

RESPONSE FROM DISTRICT OFFICIALS

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

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May 23, 2016

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Office of the State Comptroller
Mr. Jeffrey P. Leonard, Chief Examiner
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Dear Mr. Leonard:

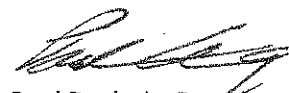
Please accept this letter as an official response letter and corrective action plan for the audit examination of the Long Lake Central School District performed by the Office of the State Comptroller for the period July 1, 2014 through November 30, 2015 focusing on Payroll.

We have reviewed the final report and agree with its findings. Listed below are your recommendations and our corrective action plan.

1. District officials should implement compensating controls to address the lack of segregation of duties within the payroll process. Such controls include increasing management reviews of work performed by the School Business Official.
 - The Business Manager will have the Treasurer review source documents for each payroll before it is processed.
2. The Superintendent should compare payroll registers to payroll source documents when certifying payrolls to ensure that payments are based on the actual hours or days worked and Board-authorized hourly rates or annual salaries.
 - The Business Manager will provide the Superintendent with source documents to review before each payroll is certified.

On behalf of the Board and Administration, I want to thank the Office of the State Comptroller for the positive audit experience and the professionalism of their field auditors.

Sincerely,


Paul Roalsvig, President
Board of Education

APPENDIX B

AUDIT METHODOLOGY AND STANDARDS

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

- We interviewed District officials and employees and reviewed the District's policy manual, Board resolutions, employment contracts, CBAs 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 gross pay computations for 10 employees during our audit period to verify whether the information entered into the financial system agreed with the time records; pay rates agreed with Board resolutions, employment contracts and CBAs; and gross pay was accurately calculated. We judgmentally selected the School Business Official who processed payroll during our audit period. We then judgmentally selected another nine employees whose salaries and wages were specified in the CBAs and individual employee contracts by selecting two employees covered by the Civil Service Employees Association CBA, three employees who were covered by the teachers' union CBA and four employees with individual employee contracts.

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 C

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