



Johnsburg Central School District Payroll

Report of Examination

Period Covered:

July 1, 2012 — January 31, 2014

2014M-174



Thomas P. DiNapoli

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State of New York Office of the State Comptroller

Division of Local Government and School Accountability

October 2014

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 Johnsbury 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 Johnsburg Central School District (District) is located in Warren County in the Towns of Johnsburg, Chester and Thurman. The District is governed by the Board of Education (Board) which comprises 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 District operates one school with approximately 340 students and 87 employees. The District's budgeted expenditures for the 2013-14 fiscal year were \$10 million, which were funded primarily with State aid, real property taxes and grants. Payroll represents a significant portion of the District's annual expenditures. For the 2012-13 fiscal year, these costs totaled approximately \$3.9 million or about 44 percent of the District's total general fund appropriations.

The Board and District officials did not correct all of the deficiencies that were identified during our previous audit,¹ which included findings related to the District's weaknesses related to payroll. If the Board and District officials do not address the internal control weaknesses identified in this report, there is an increased risk that errors or irregularities could occur and go undetected and remain uncorrected.

Objective

The objective of our audit was to determine whether District officials established effective internal controls over payroll. Our audit addressed the following related question:

- Did District officials establish adequate controls over payroll to ensure that non-instructional employees' time and leave records were adequately and accurately maintained?

Scope and Methodology

We examined internal controls over payroll for the period July 1, 2012 through January 31, 2014.

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 B of this report.

¹ Johnsburg Central School District – Internal Controls Over Selected Financial Operations (2007M-240)

**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.

The Board has the responsibility to initiate corrective action. Pursuant to Section 35 of the New York State General Municipal Law, Section 2116-a (3)(c) of the New York State Education Law, and Section 170.12 of the New York State 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 forwarded 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

Expenditures for salaries and benefits comprise a significant portion of a district's budget. Generally, districts establish salaries and benefits for their employees in written labor agreements negotiated with collective bargaining units and individual employees. To properly control and account for these costs, District officials should ensure that time worked and leave time earned is properly approved, documented, monitored and controlled so employees are paid only amounts to which they are entitled, as authorized by these agreements.

An important component of accounting for employees' time worked is maintaining records that accurately capture the times that employees' shifts begin and end and when accrued leave is used. Each employee's time record (time sheet or timecard) should be signed by the employee and reviewed and signed by the employee's supervisor. Further, all leave use should be properly requested, approved and deducted from employee leave accruals in accordance with collective bargaining agreements, employee contracts and District policy. Lastly, establishing written policies and procedures provides a framework for preparing, reviewing and maintaining timekeeping and leave records so that everyone involved has a clear understanding of the process.

The Board did not establish policies and procedures over payroll timekeeping to ensure that employees' work and leave time was accurately accounted for when implementing a new fingerprint time clock system.² Additionally, District officials did not review employees' time records³ and monitor leave accrual use.

The District's new timekeeping system did not adequately and accurately document the time employees worked. Once the District transitioned to using the fingerprint time clock, it resulted in less accountability over timekeeping because it was not used effectively. For example, employees did not consistently use the fingerprint time clock to punch in or out to record the times they reported for and left work or account for missed time clock punches. Supervisors did not consistently review or sign employees' time records. Due to these deficiencies, we could not determine from the time records we reviewed if all hourly employees worked their scheduled hours. Further, employees' leave accrual records were not reviewed for

² A fingerprint time clock requires the employee to "punch" his or her fingerprint onto the keypad of the time clock when arriving to and leaving from work.

³ Bus garage and custodial employees use timecards to record time worked and leave time used. Cafeteria and support staff use the fingerprint system to record work time. From this system, bi-weekly timesheets are generated.

accuracy after information was entered into the leave tracking software. As a result, some employees' leave was not properly approved and documented on the time records or recorded in the central leave record.

Timekeeping

The District's collective bargaining agreement allows using a timekeeping system to record employees' hours worked and leave used. Accordingly, District policies and procedures should include requirements on how employee time is accounted for. A time record signed by an employee should indicate the starting and ending work times and breaks;⁴ show calculations of the total hours worked per day, week and pay period; and indicate any leave accruals used.⁵ The employee should sign the time record certifying that the time reported is accurate, and the supervisor should sign the time record indicating that the time reported is accurate and has been reviewed. If the time record is incomplete, such as when an employee does not punch in or out, the supervisor should record the hours the employee worked or indicate that the employee was absent on the time record.

The District uses two timekeeping systems for tracking employee time. Bus garage and custodial employees use a manual time clock located in the garage, while all other hourly employees use a fingerprint time clock located in the Main Office. The District started using the fingerprint time clock in April 2013, when the previous time clock in the Main Office stopped working. The District implemented this new timekeeping system for employees not working in the bus garage. District officials did not adopt written policies or procedures providing guidance to employees and supervisors for using the new timekeeping system. The payroll clerk trained the employees on how to punch in and out using the new timekeeping system. However, the training did not include guidance on how to handle missed time clock punches or how to add approved leave into the system. Further, no guidance was provided to supervisors for reviewing and approving the time sheets generated from the new system.

We verified that employees were paid at the appropriate rates and based on the supporting time records⁶ submitted by reviewing Board approved salaries, payroll journals and time sheets or timecards for 15 of the 38 non-instructional employees⁷ paid during the 2012-13 fiscal

⁴ e.g., lunch

⁵ e.g., sick leave and vacation

⁶ For cafeteria and support staff, the payroll clerk generates and prints time sheets from the fingerprint timekeeping system at the end of the bi-weekly payroll period and distributes them to the supervisors for review. Time sheets are then returned to the payroll clerk. For bus garage and custodial employees using the manual time clock, the supervisor submits timecards to the payroll clerk at the end of the payroll period.

⁷ We included cafeteria, support, custodial and bus garage employees in our sample. See Appendix B for more information on our sample selection.

year. We found that employees were paid based on Board-approved salaries, stipends and other miscellaneous payments.

However, unlike with the prior timekeeping system, the new fingerprint time clock system had inadequate controls because the employees and supervisor no longer reviewed the time sheets daily to record missed time clock punches or instances when leave was used. As a result, the time records generated by the system no longer contained this information. Additionally, the employees and supervisors did not consistently review and sign the time sheets prior to submitting them to the payroll clerk.

We found 24 instances where 12 employees either did not punch in or out during the workday. These employees were paid for the full day, even though the time sheets contained no supervisor's indication that these employees worked or used leave. Further, we did not find any evidence that these employees submitted leave request forms to support the missed time clock punches. As a result, the time records we reviewed showed that these employees did not work the scheduled hours during those pay periods. For example, the fingerprint timekeeping system showed that on three days one employee punched out when leaving work but did not punch in when arriving to work. On another day, this employee punched in but did not punch out.

Finally, we found that 13 employees did not always sign the time records. Additionally, nine employees' time records were not signed by a supervisor indicating that the time worked as reported was reviewed, approved and accurate.

The dollar amount employees were paid for the accumulated missed time clock punches was not significant. However, without adequate policies, procedures and supervisory oversight, employees could be paid for time not worked. In addition, when time records are not properly reviewed and approved, there is an increased risk that errors and irregularities could occur and not be detected and corrected in a timely manner. Further, by not signing the timecards and time sheets, supervisors and employees fail to take responsibility for certifying that the time worked as reported is accurate.

Leave Accruals

Paid leave time is an employee benefit generally granted to District employees pursuant to collective bargaining agreements, employee polices or Board resolution. Generally, employees earn a fixed number of days each year for vacation, illness and personal use. The Board should adopt policies and procedures to ensure that employee leave benefits are properly provided, used and accounted for. A verification process should be implemented to ensure that leave time earned and used is properly tracked for each employee and the record of total

leave allowed is accurate so employees only receive the leave benefits to which they are entitled.

District officials did not have adequate procedures in place to ensure that employee leave benefits were properly earned, used and accounted for. The employees or the employees' supervisors provided leave requests to the Business Official for approval and employees received an annual school year verification form listing the remaining total leave accrual balances. However, District officials provided no oversight of the Main Office receptionist (receptionist), who maintains the employees' central leave accrual record⁸ for leave earned⁹ and leave used.¹⁰ While the Business Official verifies whether an employee has sufficient leave balances prior to approving leave, no one periodically reviews the central leave accrual record to verify that leave earned is properly recorded. Further, no one compares the approved leave requests to the time records to verify that leave time used was approved and properly recorded in the central leave record.

The receptionist did not verify that employees' leave, as approved by the Business Official, agreed with the amount of leave the employees actually used by comparing the time records to the leave request forms before updating the central leave record. Additionally, the receptionist did not follow up with supervisors if she had questions regarding employees' attendance or use of accrued leave time.

Due to the lack of adequate procedures for approving and verifying leave used and monitoring unused leave, we reviewed the leave accrual records to verify if leave was earned and carried over from one year to the next in accordance with collective bargaining agreements. We reviewed leave accruals used as shown on the central leave record and compared it to the time records and leave request forms for 10 employees on payroll during the 2012-13 fiscal year.¹¹ We also verified that the Business Official properly approved leave request forms for these employees. While our testing disclosed that these employees' leave accruals were properly earned and credited, the lack of proper oversight resulted in inconsistencies between the individual time records and the central leave record. We identified the following:

⁸ The central leave record is used to maintain the leave balances of all employees entitled to earn leave and provide annual leave balances to employees. The payroll clerk also uses the central leave record to determine payout of leave accruals for employees who resign or retire from District employment.

⁹ Pursuant to the collective bargaining agreement, individual contracts and Board resolutions

¹⁰ Per the approved leave request forms the receptionist receives from the Business Official

¹¹ Four request forms reviewed were included in the six instances where employees used and recorded leave on the time sheet or timecard, but the leave was not entered into the central leave records.

- Six instances¹² where the approved leave request forms indicated the employees used leave totaling 25 hours, but the receptionist did not enter the leave used into the central leave record. As a result, the central leave records overstated employees' leave by 25 hours. For example, one employee's leave request form was approved for seven hours of sick leave and was recorded on the employee's timecard but not entered into the central leave record.
- Nine leave request forms totaling 43.5 hours¹³ were missing or not approved by the Business Official.

Because of the lack of adequate policies, procedures and oversight of leave accrual records, District employees could use leave to which they are not entitled. Also, without periodically reconciling leave accrual records with accurate time records there is an increased risk that errors could occur, remain undetected and uncorrected and result in employees using or getting paid for leave which is not earned.

Recommendations

District officials should:

1. Develop, implement and communicate a uniform set of procedures for timekeeping.
2. Ensure that all employees consistently punch in or out when using the timekeeping system.
3. Ensure that all employees and supervisors review and sign timecards or time sheets certifying that the hours worked are accurate.
4. Establish written procedures to address maintaining accurate leave time records and ensure that accurate time accrual records are maintained, monitored and periodically reconciled, in accordance with collective bargaining agreements, employee contracts and District policy.
5. Monitor and review employees' accrued leave balances and correct the discrepancies identified in this report.

¹² For five employees

¹³ Four request forms reviewed were included in the six instances where employees used and recorded leave on the time sheet or timecard, but the leave was not entered into the central leave records.

APPENDIX A

RESPONSE FROM DISTRICT OFFICIALS

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



JOHNSBURG CENTRAL SCHOOL
P.O. BOX 380, 165 MAIN STREET
NORTH CREEK, NY 12853
FAX (518) 251-2562

Main Office
(518) 251-2921

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(518) 251-2814

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(518) 251-3504

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(518) 251-2810

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(518) 251-3811

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(518) 251-4201

September 26, 2014

To Whom It May Concern:

We are in receipt of the results of your audit for the Johnsburg Central School District for the period covering July 1, 2012 through January 31, 2014.

As stated in your report, the audit included an assessment for the District's timekeeping and leave accrual systems. In the report you also stated and verified that "employees were paid at the appropriate rates" and found that "employees were paid based on Board approved salaries, stipends, and other miscellaneous payments." However, recommendations were made to heighten the controls on time-keeping and leave accrual procedures, therefore, a corrective action plan will follow within the time-frame you outlined for our District to respond.

The District acknowledges the audit team's professionalism, resourcefulness, and cooperation during your entire visit at Johnsburg Central School.

Sincerely,

JOHNSBURG CENTRAL SCHOOL

Michael J. Markwica
Superintendent

/pm

APPENDIX B

AUDIT METHODOLOGY AND STANDARDS

Our overall goal was to assess the adequacy of the internal controls put in place by officials to safeguard District assets. To accomplish this, we performed an initial assessment of the internal controls so that we could design our audit to focus on those areas most at risk. Our initial assessment included evaluations of the following areas: financial oversight, cash receipts and disbursements, purchasing, information technology and payroll and personal services. During our initial assessment, we interviewed District officials, performed limited tests of transactions and reviewed pertinent documents, such as District policies and procedures manuals, Board minutes and financial records and reports.

In addition, we obtained information directly from the computerized financial databases and then analyzed it electronically using computer-assisted techniques. This approach provided us with additional information about the District's financial transactions as recorded in its databases. Further, we reviewed the District's internal controls and procedures over the computerized financial databases to help ensure that the information produced by such systems was reliable.

After reviewing the information gathered during our initial assessment, we determined where weaknesses existed and evaluated those weaknesses for the risk of potential fraud, theft or professional misconduct. Based on that evaluation, we selected payroll for further audit testing.

To accomplish our audit objective and obtain valid audit evidence, our procedures included the following:

- We interviewed administrators, supervisors and other District staff to obtain an understanding of the procedures for employee timekeeping and tracking leave accruals.
- We reviewed collective bargaining agreements and individual employee contracts for our audit period to ensure that salary payments were properly authorized and in accordance with the agreements.
- We tested payroll records for 15 non-instructional support staff employees¹⁴ to determine if the District's timekeeping mechanisms¹⁵ are adequately and accurately documenting the time worked by employees. We selected our sample from the 38 non-instructional employees who were paid during four randomly selected biweekly pay periods during 2012-13 school year by using a random number generator.
- We reviewed leave records for 10 employees to verify whether amounts entered in the leave tracking software agreed with leave documents and that leave credited and carried over from one year to the next agreed with Board resolutions, employment contracts or collective bargaining agreements. We also verified whether leave was properly approved, documented

¹⁴ Our sample included six bus garage employees, two cafeteria employees, one Business Office employee and six support staff employees.

¹⁵ e.g., fingerprint time clock and manual time clock

and recorded in the District's leave tracking software by comparing the central accrual records to the time sheets or time cards and the leave request forms. We selected our sample from the 38 non-instructional employees on payroll during the 2012-13 fiscal year by using a random number generator.

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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