



Liverpool Central School District

Employee Compensation and Benefits

Report of Examination

Period Covered:

July 1, 2012 — May 21, 2014

2014M-374



Thomas P. DiNapoli

Table of Contents

	Page
AUTHORITY LETTER	1
INTRODUCTION	2
Background	2
Objective	2
Scope and Methodology	2
Comments of District Officials	3
EMPLOYEE COMPENSATION AND BENEFITS	4
APPENDIX A Response From District Officials	6
APPENDIX B Audit Methodology and Standards	8
APPENDIX C How to Obtain Additional Copies of the Report	11
APPENDIX D Local Regional Office Listing	12

State of New York Office of the State Comptroller

Division of Local Government and School Accountability

March 2015

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 Liverpool Central School District, entitled Employee Compensation and Benefits. 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 Liverpool Central School District (District) encompasses approximately 24 square miles and is located within the Towns of Clay and Salina in Onondaga County. The District is governed by a Board of Education (Board) comprising nine 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 its day-to-day management under the direction of the Board.

There are 14 schools in operation within the District, which during the 2013-14 fiscal year had approximately 7,300 students and 1,200 permanent full- and part-time employees. The District's budgeted general-fund operating expenditures for the 2013-14 fiscal year were \$135.8 million, to be funded primarily with State aid and real property taxes. Payroll and associated employee benefits costs represent a significant portion of the District's annual expenditures. For the 2012-13 fiscal year, payroll and associated employee benefits costs totaled \$99.9 million, or about 81 percent of the District's total general-fund expenditures of \$123.9 million.

District employees are compensated based on collective bargaining agreements (CBAs), individual employment contracts and District personnel policies. All payroll transactions are recorded in the District's computerized financial database.

Objective

The objective of our audit was to review the District's employee compensation and benefits transactions through the use of computer-assisted auditing techniques (CAATs). Our audit addressed the following related question:

- Did District officials ensure the accuracy of compensation and benefits provided to employees?

Scope and Methodology

We examined the District's employee compensation and benefits transactions for the period July 1, 2012 through May 21, 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.

**Comments of
District Officials**

The results of our audit have been discussed with District officials and their comments, which appear in Appendix A, have been considered in preparing this report.

Employee Compensation and Benefits

Employee compensation and benefits are a significant operating cost to the District. The Board is responsible for ensuring that District employees are paid and provided employee benefits in accordance with collective bargaining agreements (CBAs), District policies and individual employee contracts. This also includes having a system in place to ensure that salaries, wages and employee benefit terms are properly and accurately recorded in the District's financial system. Establishing and adhering to strong procedures decreases the risk that fraud, abuse or errors may occur and go undetected and uncorrected.

District officials have taken appropriate action to ensure the accuracy of compensation and benefits provided to employees. They were proactive in establishing effective payroll-related policies and procedures. For example, timekeeping and payroll procedures require multiple levels of approval, and wage tables are input by employees outside of the payroll process. In addition, many duties within the payroll process have been segregated. For example, computer access levels to various payroll-related accounting functions have been limited to those employees who require access to perform their job duties. Timekeeping and supervisory functions are also segregated from payroll processing functions.

Using a combination of manual and CAATs procedures,¹ we reviewed all of the payroll records for more than 2,100 employees during the audit period to identify high-risk transactions. This resulted in us testing records for over 104,800 payroll transactions, almost 66,200 checks and direct deposits to more than 3,500 employee bank accounts. We judgmentally selected and tested employee pay rates for the audit period and verified that employees were compensated according to Board-approved rates, as specified on rate tables used by the District's accounting system to calculate pay. In addition, we examined actual rates of pay made to selected employees in the District's financial system. We also verified the accuracy of multiple types of payments to employees and the eligibility of the employees receiving them. These payments included stipends, leave buyouts, retirement incentives and separation payments. We also examined withholdings as reported on federal W-2 tax forms and withholdings for various agencies such as the New York State & Local Retirement System (NYSLRS); conducted tests to ensure pay recipients were District employees; and verified the accuracy of employer and employee contributions to tax-sheltered annuities and life insurance.

¹ See Appendix B, Audit Methodology and Standards, for details on sample selection and the use of CAATs to perform data analysis.

Finally, we reviewed all payments made to key officials for accuracy, eligibility and appropriateness.

Except for some minor discrepancies, which we discussed with District officials during our fieldwork, the compensation and benefits provided to employees matched Board-approved contracts and CBA stipulations. We commend the District for effectively designing and implementing policies and procedures that ensure the accuracy of compensation and benefits provided to District employees.

APPENDIX A

RESPONSE FROM DISTRICT OFFICIALS

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



SUPERINTENDENT OF SCHOOLS
Dr. Mark F. Potter

BOARD OF EDUCATION
Patricia DeBona-Rosier
President
John Kennedy
Vice President
Neil Fitzpatrick
Stacey A. O'Neill Balduf
Richard Pento
James Root
Kevin VanNess
David Watson
Betsy Webb-Bronzetti

March 3, 2015

[REDACTED]
Office of the State Comptroller
Division of Local Government and School Accountability
44 Hawley Street, Room 1702
Binghamton, NY 13901-4417

RE: Liverpool Central School District
Report of Examination – Employee Compensation and Benefits
July 1, 2012 – May 21, 2014

Dear [REDACTED]:

I would like to personally thank the Office of the State Comptroller for the time and effort spent to examine the Employee Compensation and Benefits of the Liverpool Central School District. It was a pleasure to work with the team from the Office of the State Comptroller. We appreciate their knowledge and insight.

We are pleased that your office commended the District for “effectively designing and implementing policies and procedures that ensure the accuracy of compensation and benefits provided to District employees”. We see this audit report as confirmation that the payroll procedures in place at the Liverpool Central School District are efficient, effective and appropriate.

In closing, the District wishes to sincerely thank the team from the Office of the State Comptroller for conducting this examination and for their professionalism during the process from May thru October 2014.

Sincerely,

Dr. Mark F. Potter
Superintendent of Schools

C. Liverpool Board of Education
Katherine R. Phillips, Asst. Supt. for Adm. Services
Timothy Manning, Asst. Supt. for Human Resources

APPENDIX B

AUDIT METHODOLOGY AND STANDARDS

We used computer-assisted auditing techniques (CAATs) to review the District's employee compensation and benefits transactions. The use of CAATs increases efficiency and enables testing on large data sets. We obtained various data sets from the District's computerized financial database and then performed tests on them using specialized software to identify anomalies and high-risk transactions. We also 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. Further, we reviewed the District's internal controls over payroll.

A significant portion of our testing used electronic accounting data from the District's accounting program. The overall population of electronic data for the audit period consisted of 66,192 payroll checks; 2,108 employees (all paid employees including part-time and substitutes); 104,831 payroll transactions and 3,549 employee bank accounts. To accomplish our audit objective and obtain valid audit evidence, we used a combination of computer-assisted audit techniques and manual audit procedures to identify and focus on high-risk transactions for testing.

We used CAATs to perform high-level analyses on rate tables used by the District's accounting system to calculate pay, and detailed analysis of actual rates of pay made to certain employees in the District's financial system. We also used CAATs procedures to verify the accuracy of multiple types of payments to employees, as well as the eligibility of the employees receiving them. Additionally, CAATs was used to test withholdings and amounts reported on W-2 forms and to various agencies. To identify any potential "ghost employees" on the payroll, we used multiple CAATs procedures to test that pay recipients were bona fide District employees.

Our audit steps included the following:

- We reviewed collective bargaining agreements, employment contracts, personnel files, time and attendance records and other payroll source documents.²
- We interviewed and observed District officials and employees to learn about procedures used to process payrolls and employee benefits.
- We compared collective bargaining agreements, individual employee contracts and District personnel policies for our audit period to pay rate tables within the District's accounting system to ensure salary payments were properly authorized and in accordance with the agreements.
- We performed various audit procedures to test that employees paid were actual employees. These procedures included verifying employee Social Security numbers to the Social Security death master file and identifying employees with addresses outside of a 45-mile radius; with post office boxes or no address; with the same name, address or phone number; receiving

² As part of our examination of employee benefits, we reviewed selected leave accrual records. However, we did not perform extensive testing on their overall accuracy.

rounded payroll payments; using the same Social Security number; and using the same bank account. We also identified instances of multiple payroll checks with the same check number.

- To verify the accuracy of compensation paid to employees, we verified that all employees paid the appropriate Social Security and Medicare taxes, that all payments made prior to official dates of hire were appropriately paid to valid employees, and that all payments made to employees through the check register agreed with amounts reported on W-2 forms. We also performed the following tests on judgmentally selected samples:
 - o Compared employee positions to Board-approved CBAs, individual contracts and District personnel policies;
 - o Verified that compensation paid to key officials was in agreement with CBAs, individual contract terms and/or District personnel policies;
 - o Verified that balloon payments were accurate and appropriate;
 - o Verified that checks written to employees who received more than 26 during a fiscal year were appropriate;
 - o Reviewed selected checks issued on dates that were not scheduled pay dates to verify they were appropriate;
 - o Reviewed payments made to employees after the termination date to determine if they were paid according to contract and if the payments were accurate.
- We performed various audit procedures to verify that overtime compensation paid to employees was accurate, appropriate and approved. These procedures included verifying that a judgmentally selected sample of overtime payments was accurately and appropriately paid and had appropriate supervisory approval, and that all overtime compensation recipients were contractually eligible.
- We reviewed a judgmentally selected sample of retirement incentive payments, separation payments and sick and vacation leave buy-back payments to verify they were properly calculated, supported and paid to eligible recipients.
- We compared certain employees' salary rates with Board-approved salary schedules (including stipends) and traced the amounts on the salary schedules to the CBAs, personnel policy and Board resolutions.
- We verified the accuracy of a judgmentally selected sample of employer and employee contributions to tax-sheltered annuities and life insurance.
- We reviewed the records of a judgmentally selected sample of employees within the 25 highest gross salaries to determine if they were paid in accordance with Board-approved contracts.

- We recalculated reportable salary and withholdings for employee retirement benefits and verified that salaries reported and contributions withheld were accurate and appropriate.

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 objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

APPENDIX C

HOW TO OBTAIN ADDITIONAL COPIES OF THE REPORT

To obtain copies of this report, write or visit our web page:

Office of the State Comptroller
Public Information Office
110 State Street, 15th Floor
Albany, New York 12236
(518) 474-4015
<http://www.osc.state.ny.us/localgov/>

APPENDIX D
OFFICE OF THE STATE COMPTROLLER
DIVISION OF LOCAL GOVERNMENT
AND SCHOOL ACCOUNTABILITY

Andrew A. SanFilippo, Executive Deputy Comptroller
Gabriel F. Deyo, Deputy Comptroller
Tracey Hitchen Boyd, Assistant Comptroller

LOCAL REGIONAL OFFICE LISTING

BINGHAMTON REGIONAL OFFICE

H. Todd Eames, Chief Examiner
Office of the State Comptroller
State Office Building, Suite 1702
44 Hawley Street
Binghamton, New York 13901-4417
(607) 721-8306 Fax (607) 721-8313
Email: Muni-Binghamton@osc.state.ny.us

Serving: Broome, Chenango, Cortland, Delaware,
Otsego, Schoharie, Sullivan, Tioga, Tompkins Counties

BUFFALO REGIONAL OFFICE

Jeffrey D. Mazula, Chief Examiner
Office of the State Comptroller
295 Main Street, Suite 1032
Buffalo, New York 14203-2510
(716) 847-3647 Fax (716) 847-3643
Email: Muni-Buffalo@osc.state.ny.us

Serving: Allegany, Cattaraugus, Chautauqua, Erie,
Genesee, Niagara, Orleans, Wyoming Counties

GLENS FALLS REGIONAL OFFICE

Jeffrey P. Leonard, Chief Examiner
Office of the State Comptroller
One Broad Street Plaza
Glens Falls, New York 12801-4396
(518) 793-0057 Fax (518) 793-5797
Email: Muni-GlensFalls@osc.state.ny.us

Serving: Albany, Clinton, Essex, Franklin,
Fulton, Hamilton, Montgomery, Rensselaer,
Saratoga, Schenectady, Warren, Washington Counties

HAUPPAUGE REGIONAL OFFICE

Ira McCracken, Chief Examiner
Office of the State Comptroller
NYS Office Building, Room 3A10
250 Veterans Memorial Highway
Hauppauge, New York 11788-5533
(631) 952-6534 Fax (631) 952-6530
Email: Muni-Hauppauge@osc.state.ny.us

Serving: Nassau and Suffolk Counties

NEWBURGH REGIONAL OFFICE

Tenneh Blamah, Chief Examiner
Office of the State Comptroller
33 Airport Center Drive, Suite 103
New Windsor, New York 12553-4725
(845) 567-0858 Fax (845) 567-0080
Email: Muni-Newburgh@osc.state.ny.us

Serving: Columbia, Dutchess, Greene, Orange,
Putnam, Rockland, Ulster, Westchester Counties

ROCHESTER REGIONAL OFFICE

Edward V. Grant, Jr., Chief Examiner
Office of the State Comptroller
The Powers Building
16 West Main Street, Suite 522
Rochester, New York 14614-1608
(585) 454-2460 Fax (585) 454-3545
Email: Muni-Rochester@osc.state.ny.us

Serving: Cayuga, Chemung, Livingston, Monroe,
Ontario, Schuyler, Seneca, Steuben, Wayne, Yates Counties

SYRACUSE REGIONAL OFFICE

Rebecca Wilcox, Chief Examiner
Office of the State Comptroller
State Office Building, Room 409
333 E. Washington Street
Syracuse, New York 13202-1428
(315) 428-4192 Fax (315) 426-2119
Email: Muni-Syracuse@osc.state.ny.us

Serving: Herkimer, Jefferson, Lewis, Madison,
Oneida, Onondaga, Oswego, St. Lawrence Counties

STATEWIDE AUDITS

Ann C. Singer, Chief Examiner
State Office Building, Suite 1702
44 Hawley Street
Binghamton, New York 13901-4417
(607) 721-8306 Fax (607) 721-8313