



Amityville Union Free School District

Payroll

Report of Examination

Period Covered:

July 1, 2014 – June 30, 2015

2016M-155



Thomas P. DiNapoli

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State of New York Office of the State Comptroller

Division of Local Government and School Accountability

July 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 Amityville Union Free 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 Amityville Union Free School District (District) is located in the Town of Oyster Bay in Nassau County and the Town of Babylon in Suffolk 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 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 Assistant Superintendent for Finance and Operations is responsible for overseeing payroll preparation. The District operates five schools with approximately 3,200 students and 640 employees. The District's budgeted appropriations for the 2015-16 fiscal year totaled \$86.2 million, which were funded primarily with State aid, real property taxes and grants.

Objective

The objective of our audit was to examine the District's internal controls over payroll and leave accruals. Our audit addressed the following related question:

- Did District officials establish adequate controls to ensure that District employees received accurate compensation and accrued and used only the leave benefits to which they were entitled?

Scope and Methodology

We examined the District's payroll for the period July 1, 2014 through June 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 indicated they plan 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 collective bargaining agreements (CBAs) and individual employment contracts. Effective controls over payroll help to provide assurance that employees are paid and receive benefits in accordance with contract provisions, and that transactions are appropriately recorded and authorized by management. A sound system of controls over employees' compensation and benefits reduces the risk that errors or irregularities will occur and remain undetected and uncorrected.

As with all school districts, payroll and fringe benefits represent a large portion of the District's annual budget. The District's gross payroll for the 2014-15 fiscal year was \$38.8 million. The significant costs highlight the importance of good controls over this area.

The Board and District officials need to improve controls over the payroll process to adequately segregate payroll processing duties, and District management needs to develop adequate procedures to ensure that overtime is preapproved. We found that payroll and leave accrual records were generally accurate. However, \$15,105 (89 percent) out of \$16,950 in overtime payments made to eight employees was paid without preapproval of the overtime hours worked. Further, overtime payments included work of a routine nature that, with proper scheduling, may have been avoidable.

Overtime

While overtime pay may be an expected cost of doing business, it is a cost that must be carefully monitored and controlled. Although some overtime hours may be unavoidable, such as when unplanned or unforeseen circumstances arise, overtime costs can usually be managed through adequate staffing levels and scheduling. Policies and procedures that dictate how and when overtime may be incurred and that require prior written justification and approval of overtime can help minimize overtime costs.

The District's CBA that covers secretaries bases overtime pay on annual salary and time and one-half after the first 35 hours in a work week. The contract that covers staff in the buildings and grounds department bases overtime pay on annual salary and time and one-half after the first 40 hours in a work week. The District requires that all overtime requests for buildings and ground staff be approved by the Assistant Superintendent for Finance and Operations or by the Assistant Superintendent for Human Resources prior to overtime work being performed.

We reviewed support for payments for eight employees who received a total of \$16,950 in overtime pay during the months of November 2014 and June 2015.¹ Of this total, \$15,105 (89 percent) was paid without preapproval of the overtime hours worked. Specifically, we reviewed 34 request forms authorizing the overtime paid and found the Facilities Administrator approved 26 request forms after the overtime work was completed. The Assistant Superintendent for Finance and Operations approved three requests before the overtime was worked. The Facilities Administrator preapproved five² request forms. There was no signed approval of overtime worked on three forms; only the employees who worked the overtime signed the forms. In addition, certain time records showed the employees' daily work times in and out with no reflections of the required breaks. Further, overtime payments included work of a routine nature that, with proper scheduling, may have been avoidable. Together, these eight employees received \$61,274 in overtime pay during the audit period.

For example, the District paid four buildings and grounds employees \$13,303 in overtime during November 2014 and June 2015. Overtime worked without preapproval included work performed by a groundskeeper whose regular schedule was 7:00 AM to 3:30 PM. The groundskeeper received additional overtime for clocking into work earlier than his scheduled start time and for not recording his lunch breaks on certain days. Therefore, he charged an overtime rate a half hour earlier each day than his schedule provided. On June 26, 2015, he received a payment of \$1,968 for 51 hours of overtime work starting at 3:00 PM on nine days. His time card reflected the entire days' times in and out with no record of breaks. On June 30, 2015, he received a payment of \$1,004 for 26 hours of overtime work starting at 3:00 PM on five days.

There was no preapproval for the overtime or explanation why it was necessary to change his work schedule on 14 days, which allowed him to earn \$270 in overtime during what would have been a half hour of his regular work schedule. Further, most of the overtime work appeared to be for routine grounds keeping work such as cutting grass or bushes, whacking weeds or blowing leaves. Therefore, with proper scheduling, this overtime may have been avoided altogether. The employee signed his own overtime form as Supervisor, and the Facilities Administrator approved the forms after the overtime work was performed.

¹ The sample included all employees who received overtime pay in our payroll sample of 30 and consisted of four building and grounds workers, two clerical workers, one messenger and one food service worker.

² Three of the five were also preapproved by the Assistant Superintendent of Finance and Operations.

Further, there was no written preapproval for the overtime worked by two clerical workers. For example, 19 hours of overtime totaling \$988 was paid to a clerical worker on November 7, 2014 for overtime worked on 15 different days from September 2, 2014 through October 24, 2014. The overtime time sheet was approved on October 28, 2014, after the overtime was worked. Nine hours of overtime totaling \$468 was paid on June 30, 2015 to the same employee for overtime worked on nine different days in February, May and June, for which the time sheet was approved on June 26, 2015. Further, because the District does not maintain time records of regular daily hours worked for contractual employees, it is not clear how officials verified the time worked so long after the overtime was worked.

Because District officials have generally not required employees to obtain approval prior to working overtime, the District may be paying more in overtime costs than necessary.

Payroll and Leave Accrual Processing

A well-designed system over payroll processing requires that the Board and District officials establish policies and procedures that provide guidance and oversight for employees who process payroll. It is important that one individual is not responsible for the entire payroll processing function. If the District's limited staff preclude establishing adequate segregation of duties, at a minimum the District should consider implementing compensating controls.

Compensating controls include having someone independent of the payroll preparation process compare payroll source documents to payrolls to ensure they are based on actual hours or days worked and Board-authorized hourly rates or annual salaries. Periodic independent reviews of leave accrual records and balances throughout the year can provide additional assurance that the accrual and use of leave time is accurate and in accordance with the applicable guidelines.

Existing controls over the District's payroll and leave accrual processes do not provide adequate segregation of duties or oversight procedures. The payroll account clerk (clerk) has full access rights to both the Human Resources and Payroll modules in the financial software application. The clerk adds a new employee, including start date, leave accrual benefits, retirement contribution rate and annual salary to the software, and routinely updates this information.

In addition, the clerk processes all of the District's biweekly payrolls, prepares the checks for printing with the Treasurer, prepares the printed paychecks for distribution and creates and submits the electronic data files for the paycheck and direct deposit payments. The clerk also is responsible for preparing an annual summary statement

of each employee's leave accrual balances as of July 1, the start of the District's fiscal year.

Although the clerk performs procedures to check her own work, no one independent of the payroll process is reviewing the payroll prior to processing. Such a review could include comparing payroll source documents, such as signed time sheets, to payroll reports to verify that hours or days worked agree. Another control could include reviewing payroll change reports that show the changes from one payroll to the next. In addition, a supervisor does not regularly review or periodically reconcile the accrual records to source records.

We reviewed payroll payments made to 30 employees³ for November 2014 and June 2015 totaling \$411,296 to determine whether their salaries and wages were accurately paid. We also tested leave accrual and attendance records for these employees to determine if leave was earned in accordance with CBAs and employment contracts, used after being earned and recorded in the accounting software when used, and whether correct, unused leave balances were appropriately carried over to the next year.

We also reviewed four separation leave payouts totaling \$64,690 and one vacation leave payout totaling \$3,958 to determine if they were accurate and authorized. Except for minor discrepancies, payroll payments were accurate. District officials also properly accounted for employees' leave accrual earnings, use and carryover. The leave payouts were for the correct and authorized amounts.

Although we did not find any material discrepancies, the lack of segregation of duties associated with processing payroll and leave accruals, along with the lack of oversight, increases the risk that errors and irregularities could occur and not be detected and corrected in a timely manner.

Recommendations

District officials should:

1. Implement procedures to properly control and monitor overtime by approving and providing justification for overtime prior to the work being performed.
2. Review work schedules and determine whether work shifts can be adjusted to reduce the need for overtime.

³ See Appendix B, Audit Methodology and Standards, for details on our sample selection.

3. Segregate the clerk's duties or implement compensating controls. Such controls could include management reviews of the clerk's work or having someone independent of the payroll process compare payroll reports to payroll source documents for accuracy prior to processing the payroll.
4. Implement procedures to provide for periodic review and reconciliation of leave accruals.

APPENDIX A

RESPONSE FROM DISTRICT OFFICIALS

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



AMITYVILLE UNION FREE SCHOOL DISTRICT

150 Park Avenue, Amityville, New York, 11701

MARY T. KELLY, Ed.D.

Superintendent of Schools

mkelly@amityvilleufsd.org

Telephone: (631) 565-6019

Fax: (631) 598-6516

July 5, 2016

Office of the New York State Comptroller
Mr. Ira McCracken, Chief Examiner
Hauppauge Regional Office
NYS Office Building
Room 3A10
250 Veterans Memorial Highway
Hauppauge, New York 11788-5533

Dear Mr. McCracken,

Please accept this letter as an official audit response letter and the required corrective action plan for the audit examination of the Amityville Union Free School District performed by the Office of the State Comptroller for the period July 1, 2014 through June 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 procedures to properly control and monitor overtime by approving and providing justification for overtime prior to the work being performed.

Effective with the 2015-2016 fiscal year the District's new Director of Facilities and new Assistant Superintendent for Finance and Operations review every request for overtime as it is received and evaluate its necessity. This process has led to a decrease in the amount of overtime work being performed.

2. District officials should review work schedules and determine whether work shifts can be adjusted to reduce the need for overtime.

Effective with the 2015-2016 fiscal year the District's new Director of Facilities and the new Assistant Superintendent for Finance and Operations regularly review the work schedules to maximize productivity and will continue to analyze overtime requests.

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3. District officials should segregate the clerk's duties or implement compensating controls. Such controls could include management reviews of the clerk's work or having someone independent of the payroll process compare payroll reports to payroll source documents for accuracy prior to processing the payroll.

Beginning July 2016, the Assistant Superintendent for Finance and Operations will review user permissions and user access with the Assistant Superintendent for Technology and Administrative Services and reassign access not related to any staff member's primary duties. In addition, effective with the 2015-2016 fiscal year the Assistant Superintendent for Finance and Operations reviews payroll change reports prior to each payroll being processed to investigate changes and agree those changes to Board actions and contracts. The District Treasurer will also be reviewing payroll reports to source documents on a regular basis as a compensating control.

4. District officials should implement procedures to provide for periodic review and reconciliation of leave accruals.

Beginning in the 2015-2016 fiscal year, leave accruals will be reviewed by the Assistant Superintendent for Finance and Operations upon an employee's separation from the District in order to ensure the accuracy of leave payouts. The Assistant Superintendent for Finance and Operations will also continue to analyze the employees' leave accruals on an annual basis for reasonableness as part of the processes performed while preparing the financial statements.

On behalf of the Board and Administration, I want to commend the professionalism of the Office of the State Comptroller's field auditors.

Yours truly,

Mary T. Kelly, Ed.D.
Superintendent of Schools

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APPENDIX B

AUDIT METHODOLOGY AND STANDARDS

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

- We reviewed the District's policies and regulations related to payroll processing and employee compensation and benefits.
- We obtained and reviewed pertinent Board minutes and related agendas for the District's 2014-15 fiscal year.
- We observed appropriate District officials and employees to learn about the procedures used to process and review payrolls.
- We reviewed the collective bargaining agreements for the various classes of the District's employees.
- We obtained electronic data to include all payroll payments between July 1, 2014 and June 30, 2015. We judgmentally selected 30 employees to include employees from the various titles and bargaining units for our test of their leave accrual balances and accuracy of the wages paid to them. We reviewed six payrolls processed: two in November 2014 and four in June 2015.
- We reviewed payroll reports and regular and overtime time cards/sheets for the sample of 30 employees to determine whether employees were paid accurately and overtime was preapproved.
- We reviewed attendance records, annual summary statements and leave accrual balances for the employees in our sample to determine whether leave accruals were in accordance with employment 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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