



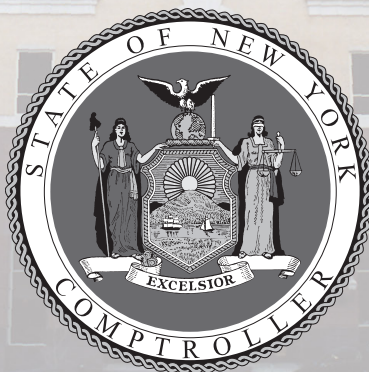
Stockbridge Valley Central School District Payroll and Leave Accruals

Report of Examination

Period Covered:

July 1, 2013 — June 30, 2014

2014M-327



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
PAYROLL AND LEAVE ACCRUALS	4
APPENDIX A Response From District Officials	7
APPENDIX B Audit Methodology and Standards	9
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

January 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 Stockbridge Valley Central School District, entitled Payroll and Leave Accruals. 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 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 Stockbridge Valley Central School District (District) is located in the Towns of Eaton, Lincoln, Smithfield and Stockbridge and the City of Oneida in Madison County, as well as the Towns of Augusta and Vernon in Oneida County. The District is governed by the Board of Education (Board) which comprises seven elected members.¹ The Board is responsible for the general management and control of the District's operations. The Superintendent of Schools (Superintendent) is the chief executive officer and is responsible, along with the Business Administrator, for the District's day-to-day management under the Board's direction.

The Business Administrator is responsible for oversight of payroll and benefits processing. The District's Treasurer (Treasurer) works under the Business Administrator's direction and is responsible for preparing payroll for the Business Administrator's review. The Treasurer also maintains District employees' leave accrual records.

The District operates one school, with 460 students and 80 full-time employees. The District's budgeted general fund appropriations for the 2013-14 fiscal year were \$10.2 million, which were funded primarily with State aid and real property taxes.

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 were being accurately compensated and accruing leave to which they were entitled to?

Scope and Methodology

We examined the District's payroll and benefits activities for the period July 1, 2013 through June 30, 2014.

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, payroll and personal services and information technology (IT). Based on that evaluation, we determined that controls appeared to be adequate and limited risk existed in most of the financial areas that we reviewed.

¹ During our field work the Board functioned with just six Board members.

We did determine that risk existed in the area of payroll and personal services and, therefore, we examined the District's payroll process.

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. District officials agreed with our findings.

Payroll and Leave Accruals

One of the Board's and District officials' responsibilities is to establish adequate controls to ensure that employees are paid wages and salaries, and provided benefits, to which they are entitled. An effective payroll process consists of written Board authorizations for salaries, wages and fringe benefits. District-wide policies, collective bargaining agreements and individual employee contracts stipulate each employee's entitlement to the accrual and use of leave time. Effective controls over payroll help to provide assurance that employees are paid and provided benefits in accordance with contract provisions and that transactions are appropriately recorded and authorized by management. In addition, good controls over payroll include both effective managerial oversight and a proper segregation of duties so that one employee does not control all phases of the payroll process. When complete segregation of duties is not possible, active supervision and oversight becomes even more important. Failure to establish and adhere to a sound system of controls over employees' compensation and benefits increases the risk that fraud, abuse or errors may occur and go undetected and uncorrected.

As with all school districts, payroll and fringe benefits represent a large portion of the District's annual budget. Salaries and wages, including overtime and employee benefit costs, totaled approximately \$6 million,² or 59 percent of the District's general fund expenditures for the 2013-14 fiscal year. The significant costs involved highlight the importance of good controls in this area.

We found that District officials established adequate controls over payroll and leave accruals. District officials implemented specific procedures to ensure that duties were segregated, employees were paid at their approved salaries and wages and received the benefits to which they were entitled, and individuals reported and paid on the payrolls were bona fide District employees.

Payroll Processing – The various control procedures over the District's payroll process provided adequate segregation of duties, supervision and oversight. Specifically, the Board approves the hiring of all new employees before any employee is added to the payroll. The District Clerk (Clerk) records all employee salaries, wages and effective dates in the Board minutes. The District has contracted with the Madison-Oneida Board of Cooperative Educational Services (MO) to provide payroll services for the District. The District's payroll is processed

² \$3,672,858 in salaries and \$2,372,589 in employee benefits such as healthcare and pension costs are included.

at MO Central Business Office (CBO) and checks are printed by the Madison-Oneida Regional Information Center (RIC). The Business Administrator creates and sends salary authorization³ letters to the CBO based on contracts and Board approval from the minutes. The CBO clerk enters all new District employee information and salaries into the payroll system. She is also responsible for inputting any changes made throughout the year.⁴ Further, the CBO clerk enters all time sheet information⁵ into the payroll system and processes the payroll based on District-provided information.

The RIC processes checks and direct deposit remittances and sends these documents by courier directly to the Treasurer. The Treasurer then reviews and approves the checks and direct deposit remittances prior to the Superintendent's certification. Additionally, to verify that only District employees were receiving pay checks, District officials performed two payroll payout audits during the 2013-14 school year, in which all employees were required to sign for their paycheck and show proper identification.⁶

We examined District records to determine if officers and employees were paid and received benefits according to their respective employment or collective bargaining agreements. We examined the records for two payrolls by choosing a sample of 18 employees⁷ with gross pay totaling \$58,410 in the 2013-14 fiscal year to determine whether salaried and hourly employees were paid at their approved rates. We found no exceptions.

Leave Accruals – The Treasurer records earned leave at the beginning of each year based on the corresponding contracts or Board policy. She also verifies that the prior year's ending leave are accurately recorded in the computerized system and do not exceed the maximum amount allowed. The Treasurer consolidates absences by individual on the daily attendance records. The Treasurer summarizes these daily records into a weekly attendance report which is reviewed and approved by the Business Administrator. Once the Business Administrator approves the weekly attendance report, the Treasurer updates leave time information in the computerized system. In

³ The initial employment and any changes to salary once employed

⁴ Annual changes in salary per negotiated contracts, mid-year changes for additional college credits and degrees earned, longevity payments and any coaching or student advising duties

⁵ This would include all hours worked (e.g., regular, extra and overtime) for all hourly District staff.

⁶ This process was completed for September 13, 2013 and January 31, 2014 paychecks.

⁷ See Appendix B, Audit Methodology and Standards, for details on our sample selection.

addition, employees receive leave accrual summaries on their pay stubs, which allow employees to monitor their accruals as well.

For the two pay periods previously identified, we examined leave accruals charged for 11 of the 18⁸ employees that used leave. We also tested annual leave earned by 16 of these employees. We found no exceptions.

In summary, the District's controls over payroll and leave accruals were appropriately designed and operating effectively to safeguard District assets.

⁸ Two of the 18 employees sampled for review were part-time employees that did not earn leave accruals.

APPENDIX A

RESPONSE FROM DISTRICT OFFICIALS

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

January 2, 2015

Rebecca Wilcox, Chief Examiner
Syracuse Regional Office of the State Comptroller
State Office Building, Room 409
333 East Washington Street
Syracuse, New York 13202-1428

Dear Rebecca Wilcox,

On behalf of Stockbridge Valley Central School District, I am writing to respond to the Payroll and Leave Accruals Audit Report which covered the dates of: July 1, 2013 through June 30, 2014, recently conducted by the Office of the New York State Comptroller. The district wishes to express its sincere appreciation for the cooperation of the audit team under the direction of [REDACTED] [REDACTED] for the depth and thoroughness of the audit during the six weeks on-site.

Please be advised, Stockbridge Valley CSD fully supports the findings which are outlined in this report. Additionally, we appreciate the feedback regarding the district's existing internal controls and procedures for making financial transactions as identified in the audit report. Please know that we plan to use this evaluation to guide the work that we will continue to do for our community.

Should you wish to discuss this response in greater detail, please do not hesitate to contact me at 315-495-4400. Thank you again for your time and efforts.

Yours in Education,

Mathis Calvin III, Ed. D.
Superintendent of Schools

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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, payroll and information technology.

During the initial assessment, we interviewed appropriate 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 determined that controls appeared to be adequate and limited risk existed in most of the financial areas we reviewed. We then decided on the reported objectives and scope by selecting for audit an area that appeared to have additional controls in place. We selected payroll and leave accruals for further audit testing. To accomplish our audit objective and obtain valid audit evidence, our procedures included the following steps:

- We interviewed and observed appropriate District officials and employees to learn about the procedures used to process payrolls.
- We reviewed Board meeting minutes.
- We reviewed collective bargaining agreements, non-negotiating staff benefits policy and individual employee contracts for our audit period to ensure that salary payments were properly authorized and in accordance with the agreements.
- We reviewed pertinent payroll records.
- We reviewed a separation payment to the former Assistant Principal.
- We reviewed a report of all new hires and, using a random number generator, selected five employees (20 percent) and judgmentally selected five other employees (two substitutes and three salaried). We confirmed Board approval of hiring by tracing to personnel folders and Board minutes.

- For the two randomly selected payroll periods (August 31, 2013 through September 13, 2013 and January 18, 2014 through January 31, 2014), we:
 - o Separated employees into groups by job position (Teachers, CSEA, non-negotiating and contract) and, using a random number generator on each group, selected a total of 14 employees to review. We included the new hire sample of 10 and additionally selected the Business Administrator and Treasurer for review, due to their involvement in the payroll process, for a sample total of 26 employees.
 - o Reviewed 18 of the 26 employees' records who worked in one or both selected pay periods. We reviewed records to determine if the bi-weekly salaries paid were accurate, calculated correctly and paid in accordance with Board approved rates.
 - o Reviewed 16 of the 18 employees who were eligible for use and earning of leave time. We compared time card and time off requests to leave records to determine if forms were filled out as required and that the correct leave types and amounts were deducted from the employees' leave accruals. In addition, we verified that accruals credited as of July 1, 2013 conformed to negotiated contracts and the non-negotiating personnel policy.
- We reviewed the District's procedures for the payroll payout audits.

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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