



Carle Place Union Free School District Payroll

Report of Examination

Period Covered:

July 1, 2014 – October 31, 2015

2016M-69



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 Carle Place 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 recommendation 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 Carle Place Union Free School District (District) is located in the Town of North Hempstead, Nassau 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 three schools with approximately 1,380 students and 480 employees. The District's general fund expenditures for the 2014-15 fiscal year were approximately \$45.2 million, which were funded primarily with real property taxes. The District's budgeted appropriations for the 2015-16 fiscal year are \$47.7 million. As with all school districts, payroll represents a large portion of the District's annual budget. Salaries and wages totaled approximately \$26.7 million, or about 60 percent, of the District's general fund expenditures for the 2014-15 fiscal year.

Objective

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

- Did District officials establish adequate procedures to ensure that employees were accurately paid?

Scope and Methodology

We examined the District's internal controls over payroll for the period July 1, 2014 through October 31, 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 C 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 recommendation have been discussed with District officials, and their comments, which appear in Appendix A, have been considered in preparing this report. Except as specified in Appendix A, District officials agreed with our recommendations and indicated they planned to take corrective action. Appendix B includes our comment on the issues raised in the District's response letter.

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. An effective payroll system can provide assurance that employees are paid in accordance with contract provisions and that payroll transactions are authorized by management. A well-designed system over payroll processing requires that the Board and District officials establish policies and procedures that provide oversight of 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 precludes establishing adequate segregation of duties, at a minimum, the District should consider implementing compensating controls, including 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-approved hourly rates or annual salaries.

The Board approves salary and wage amounts to be paid through collective bargaining agreements (CBAs), individual employee contracts and Board resolutions. The Business Manager carries over the salary amounts for salaried employees in the financial system at the start of the fiscal year. Salaried employees' paychecks are automatically generated from this information. Any hourly-paid time is accounted for on a time sheet, which is signed by the employee and their immediate supervisor. The payroll clerk collects all time sheets and enters the hours worked for hourly employees, as well as any additional hours worked for salaried employees, into the financial system. The payroll clerk inputs all of the payroll information and processes the payroll without anyone reviewing her work. As part of the payroll process, the payroll clerk prints and reviews an earnings report, to identify changes from the previous payroll and reconciles any changes. After payroll is processed, the Treasurer prints the payroll checks, reviews the budget codes and posts the journal entry.

The District needs to improve its controls over payroll processing. Although the payroll clerk performs procedures to double check her own work, the review process should involve someone independently reviewing 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 and reviewing payroll change reports which show the changes from one payroll to the next.

Because of these weaknesses, we reviewed payroll records for 25 employees who were paid a total of \$1.4 million from July 1, 2014

through June 30, 2015 to determine if they were paid according to their respective CBAs, employee contracts or Board-approved rates. Included in the 25 employees were the 10 highest paid hourly employees in 2014-15 fiscal year who were paid a total of \$245,552. We compared the hours listed on their time sheets to hours paid for 13 payrolls from January 1, 2015 through June 30, 2015. We also verified the hourly pay rates and determined whether the employees' time sheets were signed by their supervisor. The hours paid to these employees accurately reflected the hours listed on the time sheet and the rates paid were the Board-approved rates. With minor exceptions, time sheets were signed by the employees' supervisor.

We also recomputed the salary amounts paid to the 10 highest paid teachers' aides for the 2014-15 fiscal year totaling \$269,825 and found no discrepancies in the salary amounts. Lastly, we reviewed the payroll records for the five employees who received the most number of checks¹ for the 2014-15 fiscal year totaling \$877,559 to determine if all checks received were accurate and authorized. We found no discrepancies. Overall, the compensation paid to these 25 employees was correctly calculated and supported by either their respective CBA, employee contract or Board-approved rate.

Although we did not identify any material discrepancies, the lack of adequate oversight of the payroll clerk's duties increases the risk that errors or irregularities in the processing of payrolls could occur and remain undetected or not be detected in a timely manner.

Recommendation

1. District officials should implement compensating controls to address the lack of oversight of the payroll clerk's duties. Such controls could include initiating management reviews of the work performed by the payroll clerk or having someone independent of the payroll process compare payroll reports to payroll source documents for accuracy prior to the payroll being processed.

¹ In addition to regular payroll checks, employees may receive additional checks for retroactive pay, longevity payments, vacation day payments and stipends.

APPENDIX A

RESPONSE FROM DISTRICT OFFICIALS

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

Carle Place Union Free School District

168 Cherry Lane
Carle Place, New York 11514-1788

BOARD OF EDUCATION

Barry M. Dennis, President
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April 26, 2016

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

Dear Mr. McCracken:

The Board of Education of the Carle Place Union Free School District (the "Board") acknowledges the findings and recommendations in the Office of the State Comptroller's Report of Examination number 2016M-69 entitled *Payroll* for the period July 1, 2014 – to October 31, 2015 (the "Draft Audit Report").

We note that the methodology section of your report, does not adequately address the process your office used to select payroll for an audit. We believe it appropriate to indicate that your staff conducted a high level risk assessment of many different areas of our operations. Professional judgment about exposure and risk was applied to each area and a determination made to select our payroll process out of a possible list of many other areas. While it is important for a reader of this report to understand that your staff did not audit those areas, and therefore cannot conclude that they are free from error, it should also be noted that controls in place allowed these other areas to be assigned a level of risk deemed lower than the risk associated with our payroll function. We believe strongly that this information is important and should not have been omitted from your report.

Ultimately, we are in agreement with your recommendation in the draft audit report. It is also important for us to make clear that your recommendation is to *improve existing procedures*. A reader of this report should not misconstrue your recommendation to conclude that there were no controls in place surrounding our payroll function. In fact, we believe the reason your own test work did not uncover any discrepancies in your selection is due to the processes already in existence.

See
Note 1
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Audits that identify meaningful suggestions for improvement to our existing internal controls are always welcomed. As a result, the district took immediate corrective action in January 2016 (upon completion of your field work) and improved our payroll procedures with an additional review. Details of these procedures will be provided in a formal corrective action plan at a later date as required.

Sincerely,

Joseph LoCurto
Vice-President, Board of Education

David J. Flatley
Superintendent of Schools

APPENDIX B

OSC COMMENT ON THE DISTRICT'S RESPONSE

Note 1

Our audit process involves conducting an initial risk assessment of the District's operations, then deciding on the reported objective and scope by selecting for audit the area or areas most at risk. As required by GAGAS, our reports present the results and conclusions of audit work performed to meet the reported objective.

APPENDIX C

AUDIT METHODOLOGY AND STANDARDS

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

- We interviewed District officials and employees to gain an understanding of the District's payroll process.
- We determined which hourly employees had the highest gross salaries for the 2014-15 fiscal year. We then selected the 10 employees with the highest gross salaries for that period. We reviewed the time sheets for those 10 hourly employees for the period January 1, 2015 through June 30, 2015 to determine if their time sheets were signed by the employee and supervisor, and if the hourly rate and hours worked were entered accurately into the District's financial software. We recalculated each payroll to determine if the District paid these employees accurately.
- We reviewed the annual salaries for the 10 highest paid teachers' aides to determine if the hourly rate paid agreed with what was authorized by the corresponding CBA.
- We reviewed the payroll records of the five employees who received the most number of checks for the period July 1, 2014 through June 30, 2015 to determine if their gross pay was accurate as stated in their contract and if any additional payments received were authorized by a CBA, employee contract or other Board-approved document.

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 D

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