



Greenburgh Central School District Payroll and Reserve Funds

Report of Examination

Period Covered:

July 1, 2014 – March 23, 2016

2016M-242



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State of New York Office of the State Comptroller

Division of Local Government and School Accountability

September 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 Greenburgh Central School District, entitled Payroll and Reserve Funds. 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*



State of New York Office of the State Comptroller

EXECUTIVE SUMMARY

The Greenburgh Central School District (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 District operates six schools with approximately 2,000 students and 450 employees. The District's budgeted appropriations for the 2015-16 fiscal year were approximately \$65 million, which were funded primarily with State aid and real property taxes.

Scope and Objectives

Our audit objectives were to examine the District's payroll procedures and the District's reserve funds for the period July 1, 2014 through March 23, 2016. Our audit addressed the following related questions:

- Did District officials establish adequate procedures to ensure that employees' salaries and wages were accurately paid and leave time was accurately recorded?
- Did the Board properly establish and maintain reserve funds at reasonable levels?

Audit Results

Although we did not find any material discrepancies, the Board and District officials need to improve controls over the payroll process. Specifically, District officials have not provided employees with written procedures over payroll and did not adequately segregate payroll duties or establish sufficient compensating controls, did not adequately review payrolls before certifying them and did not preapprove overtime and leave requests as required.

We analyzed the District's reserve funds for reasonableness and adherence to statutory requirements and determined that all six reserves were properly established. However, only two of the six reserves (tax certiorari and retirement contribution) have been used in the last five years. There was no evidence that the Board has periodically assessed the remaining four reserves for necessity. Additionally, there was no clear plan for the future use of any of the District's six reserves.

Comments of District Officials

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 that they are initiating correct action.

Introduction

Background

The Greenburgh Central School District (District) is located in the Town of Greenburgh, Westchester 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 senior payroll clerk (senior clerk) is responsible for processing the District's payrolls.

The District operates six schools with approximately 2,000 students and 450 employees. The District's budgeted appropriations for the 2015-16 fiscal year were approximately \$65 million, which were funded primarily with State aid and real property taxes.

Objectives

Our audit objectives were to examine the District's payroll procedures and the District's reserve funds. Our audit addressed the following related questions:

- Did District officials establish adequate procedures to ensure that employees' salaries and wages were accurately paid and that leave time was accurately recorded?
- Did the Board properly establish and maintain reserve funds at reasonable levels?

Scope and Methodology

We examined internal controls over the District's payroll function and the establishment, funding methods and balances of the District's reserves for the period July 1, 2014 through March 23, 2016. We extended our scope period back to July 1, 2010 to analyze reserve balance trends.

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 that they are initiating correct 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

An effective system of internal controls should provide assurance that employees are paid and provided benefits in accordance with contract provisions and authorized by management. This includes policies, procedures and practices to provide employees with guidance for preparing and disbursing payroll. If segregating payroll duties is not feasible, District officials must implement compensating controls to reduce the associated risk. Also, the Board should formally designate a District official to certify payrolls before checks are distributed. In addition, preapproval of overtime aids in effectively managing overtime costs, and records documenting leave time should be maintained by District officials to ensure employees receive only time earned. The absence of adequate controls over processing payroll may leave a payroll system susceptible to errors or irregularities.

Although we did not find any material discrepancies, the Board and District officials need to improve controls over the payroll process. Specifically, District officials have not provided employees with written procedures over payroll, did not adequately segregate payroll duties or establish sufficient compensating controls, did not adequately review payrolls before certifying them and did not preapprove overtime and leave requests as required. We reviewed payroll payments along with applicable supporting documentation for 35¹ of the District's 373 employees, totaling approximately \$729,000 during three separate months, to determine if the employees' salaries and wages were paid accurately. Except for minor discrepancies, which we discussed with District officials, employees' salaries and wages were paid accurately.

Written Procedures – In most school districts, salaries and fringe benefits make up the single largest expenditure category in a district's budget. As such, the payroll processing function should be clearly defined through policy and procedures and closely supervised. However, District officials have not established written procedures for processing payroll.

The District experienced significant turnover in the payroll department during our audit period. A senior clerk who was with the District for approximately 25 years retired and, since then, three other individuals have held the position. Each of these senior clerks developed their own procedures to process payroll with no consistency in the manner

¹ Refer to Appendix B for information on our sample selection.

in which each of them processed payrolls. Without written procedures in place for employees to follow, there is an increased risk that payrolls could be processed with errors or irregularities.

Segregation of Duties – No one individual should control all the aspects of a transaction or event. By separating key tasks and responsibilities, management can reduce the risk of error, waste or wrongful acts occurring or going undetected. However, in cases where tasks cannot be effectively separated, management can substitute increased supervision as a compensating control, which can help prevent or reduce these risks.

There was a lack of segregation of duties in the District’s payroll processing function because the first senior clerk was able to process checks, change payroll rates, enter employee data and retain custody of the payroll checks. In addition, two of the three senior clerks had access rights in the financial software which permitted them to add, delete, update and print in the payroll, human resources, accounting and negotiations modules. Control over the payroll process by one person increases the risk that errors or irregularities could occur and remain undetected.

Certified Payroll – Payroll certification involves reviewing payments for accuracy and signing the payroll to indicate it has been reviewed. The Board and District officials should establish procedures for payroll certification to help ensure that the individual certifying the payroll does so in a thorough, accurate and timely manner, such as comparing the payroll register to source documents (i.e., time records), testing employee pay rates to the Board-approved rates or reviewing the payroll change report. Although the Assistant Superintendent for Business (ASB) certifies the payroll for accuracy, the Board does not have payroll certification procedures and has not formally adopted a resolution designating the ASB, or someone independent of the payroll process, to do so.

We reviewed the payroll registers in the certified payroll book for evidence of certification for all 20 months during the audit period. Although all payrolls were signed, none were dated to indicate the certification date, and there was no evidence of any review other than the ASB’s signature. For example, it did not appear that payrolls were compared to supporting documentation or that random testing of employees’ pay rates had occurred. The ASB told us that she recently signed a number of payrolls at the same time, without review, because they were not given to her in a timely manner. Without a thorough and timely review, the Board cannot be assured that all payroll transactions are accurate, and there is an increased risk that incorrect payroll payments will not be detected.

Overtime Preapproval – The District’s collective bargaining agreement (CBA) for civil service employees states that all overtime work is required to be preapproved by the responsible administrator, except in emergency situations. Although all overtime was approved by supervisors after it had occurred, overtime was not preapproved.

We reviewed evidence of overtime preapproval for 25 out of 167 civil service employees during the months of September 2014, September 2015 and February 2016. The District used overtime time sheets in 2014 and 2015 that had a section for supervisors to preapprove the number of hours of overtime and a space for supervisors to approve the overtime actually worked. Overtime was not preapproved for 24 out of 28 instances in September 2014 and 27 out of 28 instances in September 2015.

The District switched to electronic time records starting in December 2015 for civil service employees. There is no process in place to preapprove overtime with the new electronic system and all 16 instances of overtime were not preapproved. Without proper preapproval of overtime, the District could be incurring unnecessary overtime costs.

Leave Approval – The CBA for civil service employees requires advanced supervisory approval of leave for nonemergency personal and vacation days. Employees use request slips to request approval from their supervisor in advance. The slips then go to the ASB’s secretary, who maintains attendance records.

We reviewed signed documentation approving employee leave for six employees randomly selected from our payroll sample of 35 employees. Out of 33 personal days used during the audit period, the District had evidence of only three days being approved in advance by a supervisor. Of 129.5 vacation days used, the District had evidence of only one day being approved in advance. District officials told us that they could not find the documentation for the other days. Without proper documentation, the Board and District officials cannot be sure that leave time was approved in advance.

Recommendations

District officials should:

1. Develop written payroll-processing procedures for employees to follow.
2. Implement compensating controls to address the lack of segregation of duties in the payroll process.
3. Ensure that employees only have access in the financial software necessary to perform their job duties.

4. Ensure that overtime is preapproved.
5. Ensure leave time is preapproved and that supporting documentation is retained.

The Board should:

6. Assign someone independent of the payroll process to examine and review completed payrolls for accuracy and certify the payrolls to indicate their review prior to payment.

Reserve Funds

A reserve fund should be established with a clear intent or plan in mind regarding the future purpose, use and, when appropriate, replenishment of funds. There should be a clear purpose or intent for reserve funds that align with statutory authorizations. The Board should also periodically assess the reasonableness of the amounts accumulated in reserve funds. Accurate records need to be maintained for each reserve and reported to the Board so that it can make accurate and informed decisions regarding the funding and use of each reserve. When conditions warrant (subject to legal requirements), the Board should reduce reserves to reasonable levels or liquidate and discontinue a reserve that is no longer needed or whose purpose has been achieved.

The District had six reserve funds with reported balances totaling approximately \$9 million as of June 30, 2015. The District maintained the following reserves: tax certiorari – \$7 million, retirement contribution – \$1.3 million, employee benefit and accrued liability – \$351,000, unemployment insurance – \$120,000, property loss – \$120,000 and repair – \$74,400.

We analyzed the District's reserves for reasonableness and adherence to statutory requirements and determined that all reserves were properly established. However, only two of the reserves (tax certiorari and retirement contribution) have been used over the last five years. The other four reserves have not had any funds added or used over the last five years except for accumulated interest allowed by law. There was no evidence that the Board has periodically assessed these four reserves for necessity. Additionally, there was no clear plan for the future use of any of the District's six reserves. The Board President told us that the Board has not adopted a formal plan for the use and funding of reserves.

In addition, District officials did not adequately track the District's exposure to tax certiorari judgements or maintain reliable records supporting the amount in that reserve. The Treasurer relied on tax certiorari potential claims exposure information provided by the District's lawyer. We attempted to match potential tax certiorari claims exposure with actual settlement amounts. However, the documentation maintained by the District was incomplete and the information provided by the District's lawyer did not correspond to the actual settlement amounts. Therefore, the Board has no assurance that the amount in the tax certiorari reserve is reasonable or necessary.

Recommendations

The Board should:

7. Adopt a reserve fund policy that addresses the funding and use of all reserve funds.
8. Assess the reasonableness of amounts in all reserve funds and adjust accordingly.

District officials should:

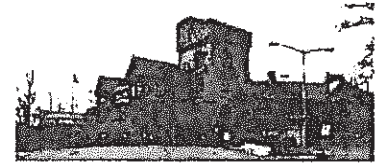
9. Maintain proper records and support for the tax certiorari reserve fund.

APPENDIX A

RESPONSE FROM DISTRICT OFFICIALS

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

GREENBURGH CENTRAL SCHOOL DISTRICT



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Dr. Tahira A. DuPree Chase
Superintendent of Schools

September 12, 2016

Ms. Tenneh Blamah
Chief Examiner
33 Airport Center Drive
New Windsor, New York

Dear Ms. Blamah:

The Greenburgh Central School District is in receipt of the Audit Report Titled Payroll and Reserve Funds prepared by the Office of the State Comptroller. The audit period covered July 1, 2014 – March 23, 2016.

While the District agrees with the audit comments, we would like to note that during the audit period, the District appointed a new Superintendent and Assistant Superintendent for Business in 2015. In addition to the Administrative appointments, the District's Treasurer and Payroll person retired. Many of these recommendations made by the Comptroller's were already in the process of being addressed. The audit results mention that District officials have not provided employees with written procedures over payroll, did not adequately segregate payroll duties or establish compensating controls, payrolls were not adequately reviewed before being certified and overtime and leave requests were not pre-approved as required.

In the Spring of 2015, the District implemented cross training with payroll and began the process of segregated duties and documenting payroll in detail. Unfortunately, due to the retirement of the payroll person and other staffing issues the District had to deal with, the complete segregation and documentation was not completed. We would like to point out that the District staff utilized written procedures from our vendor on how to process a payroll however agree that they need to be expanded in detail. We anticipate completion of detailed procedures in September of 2016.

During the 15-16 school year, the District implemented an electronic timekeeping system as well as an electronic absence reporting system. We believe that this resolved our issues with overtime and leave request approvals. The District believes that payroll was reviewed adequately however acknowledge it was not always properly documented. To address this issue and to further provide oversight, we have expanded our Internal Claims Auditor scope to include auditing the payroll.

The Audit results mention that there was no evidence that the Board periodically reviewed 4 reserves for necessity and that there was no clear plan for future use of the 6 reserves. Each year, our reserves were



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audited by our external auditors. These results were discussed with the Board however not sufficiently documented. The District is currently developing policies and procedures as suggested by the Audit.

The Board, Administration, Faculty, Staff and Community would like to thank the Auditors for their professionalism and courtesy while conducting the audit. We are pleased that no material discrepancies were found and look forward to continuing on improving our processes.

Sincerely,

— Dr. Tahira A. DuRée Chase
Superintendent of Schools



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APPENDIX B

AUDIT METHODOLOGY AND STANDARDS

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

- We interviewed District officials and employees involved in the payroll process to gain an understanding of the procedures for processing and certifying the payrolls.
- We reviewed Board meeting minutes for evidence of payroll oversight, including employee salary authorization and oversight procedures.
- We reviewed three CBAs and five individual employee contracts for salary and overtime requirements.
- We reviewed and tested eight pay periods for 35 employees out of a population of 373 for payroll accuracy. We judgmentally selected the September 2014, September 2015 and February 2016 payrolls because different senior clerks processed the payroll during these months. We used the data analysis tool to select employees in different categories of employment: 25 civil service employees, five teachers and five administrators/confidential employees.
- We analyzed the financial software user permission report to determine the access rights of the three senior clerks.
- We reviewed overtime time sheets for the civil service employees for evidence of overtime preapproval.
- We reviewed the payroll certification book.
- We reviewed the employee attendance report for six employees and verified that dates of leave were approved by a supervisor. The six employees were randomly selected using the data analysis tool from the payroll sample of 35 employees. We selected three civil service employees, two administrator/confidential employees and one teacher.
- We interviewed District officials to gain an understanding of the processes and procedures in place over the District's reserves.
- We reviewed Board minutes and Board resolutions to determine if the reserves were properly established by law.
- We analyzed the trends of the six reserve balances for fiscal years 2010-2011 through 2014-2015.
- We obtained the tax certiorari exposure and tax settlement spreadsheet for fiscal years 2010-11 through 2014-15. We randomly selected five settled claims for each fiscal year for a total of 20 settled claims and compared them to the original claims amounts.

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

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