



North Salem Central School District Time and Attendance

Report of Examination

Period Covered:

July 1, 2014 – December 18, 2015

2016M-209



Thomas P. DiNapoli

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State of New York Office of the State Comptroller

Division of Local Government and School Accountability

August 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 costs and to strengthen controls intended to safeguard district assets.

Following is a report of our audit of the North Salem Central School District, entitled Time and Attendance. 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 North Salem Central School District (District) is located in the Town of North Salem, a portion of the Town of Somers in Westchester County and portions of the Towns of Carmel and Southeast in Putnam 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 District operates two schools with approximately 1,160 students and 272 employees. The District's budgeted appropriations for the 2015-16 fiscal year were \$40.8 million, funded primarily with State aid, real property taxes and grants.

The Assistant Superintendent for Business Administration and the District Treasurer are responsible for handling the District's financial operations, including payroll. The Assistant Superintendent for Instruction and Human Resources is responsible for approving leave accruals and is assisted by a secretary, school principals, department supervisors and their secretarial staff. The secretary to the Assistant Superintendent for Business Administration is responsible for final time and attendance processing.

Objective

The objective of our audit was to determine if District officials provided sufficient oversight of time and attendance. Our audit addressed the following related question:

- Did District officials ensure that time, attendance and leave accrual records were accurate, complete and properly approved?

Scope and Methodology

We examined payroll transactions and leave accrual records for selected District employees for the period July 1, 2014 through December 18, 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 is 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 findings and recommendations and indicated they will take 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.

Time and Attendance

Payroll costs and employee benefits, such as leave accruals, represent a significant portion of the District's operating expenditures. The Board and District officials are responsible for developing written payroll policies and implementing related control procedures to help ensure that payroll is processed consistently and accurately. It is important that District officials implement procedures that ensure accurate maintenance of attendance and timekeeping records so that leave used or earned and hours worked can be accurately reported. In addition, effective controls over user access to software applications should restrict authorizations to the functions that individuals need to perform their job duties. Good controls include effective management oversight of those charged with processing time and attendance so that no one individual can control all aspects of payroll transactions.

District officials did not ensure that time, attendance and leave accrual records were accurate, complete and properly approved. The Board did not establish policies and formal written procedures over payroll timekeeping to ensure that employees' leave and work time was accurately accounted for. As a result, time sheets were incomplete and employees were credited with incorrect leave accruals. In addition, District officials did not segregate duties in the time and attendance software, and there were no compensating controls in place. Because of the lack of segregation of duties or compensating controls, there is an increased risk that unauthorized changes to the time and attendance records, software security settings and user authorization privileges could occur and go undetected.

Policies and Procedures

It is important that the District implement procedures that ensure maintenance of accurate attendance and timekeeping records. For example, time sheets for overtime should be submitted in the period worked. Detailed procedures help ensure that leave used or earned and hours worked are reported accurately and timely to the attendance and payroll offices. Supervisors should review time records for completeness and accuracy.

The Board did not establish policies and District officials did not develop written procedures over time and attendance to ensure that employees' leave and work time were accurately accounted for. The Board and District officials believed the necessary procedures were covered in other documents. As a result, we found:

- Thirty of the 37 biometric¹ time sheets reviewed were not filled out completely.
- Three employees were erroneously paid a total of \$900 for unused personal days. However, they also received credit for the unused personal days, which were converted to sick leave valued at \$1,649. Therefore, they were overcompensated. District officials corrected this when we brought it to their attention.
- There was no evidence of supervisory review of time sheets.

These errors occurred because the Board and District officials did not have adequate internal controls over time and attendance. Although the cost to the District for the discrepancies identified was not material, if controls are not improved, there is an increased chance that errors and irregularities of a more significant nature could occur and not be detected.

Segregation of Duties

Effective controls over user access to software applications restricts authorizations to the functions that individuals need to perform their job duties. Such authorizations should preserve a proper segregation of duties so that the same person is not involved in and cannot perform multiple aspects of a transaction. In addition, a computerized time and attendance system should provide a way to determine who is accessing the system and what transactions are being processed via an activity log. Management or its designee should review this log to monitor the user activity.

District officials have not segregated duties within the time and attendance application. Application administrators include the secretary to the Assistant Superintendent for Business Administration, the secretary to Assistant Superintendent for Instruction and Human Resources and the Assistant Superintendent for Business Administration. Administrators have full access to employees' files, including adding employees to the system, giving employees access rights, entering employee absences and changing employees' attendance or type of leave.

There were no compensating controls in place, such as review of activity logs to reduce the risk created by inadequate segregation of duties. We reviewed the administrators' logins for June through September 2015² and determined that District officials are not

¹ The District uses an electronic time clock requiring a thumbprint scan.

² See Appendix B, Audit Methodology and Standards, for details on our sample selection.

supervising the application. For example, the Assistant Superintendent for Business Administration did not show any login activity for the months selected. Because of the lack of segregation of duties or compensating controls, there is an increased risk that unauthorized changes to the time and attendance records, software security settings and user authorization privileges could occur and go undetected. This could lead to the loss of important time and attendance data or the inappropriate use of the application.

Recommendations

The Board should:

1. Establish more comprehensive policies that incorporate the duties to be completed and records to be maintained for time and attendance and maintaining leave records.

District management should:

2. Establish comprehensive written procedures for time and attendance.
3. Ensure that biometric time sheets are consistently and fully completed.
4. Assign an individual independent of the maintenance of leave records to periodically review leave accrual records for accuracy.
5. Change user access in the time and attendance system to provide limited user rights.

APPENDIX A

RESPONSE FROM DISTRICT OFFICIALS

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



Kenneth R. Freeston Ph. D.
Superintendent of Schools

Barbara Briganti
Assistant Superintendent for
Business Administration

July 21, 2016

Ms. Tenneh Blamah
Newburgh Regional Office
33 Airport Center Drive, Suite 103
New Windsor, NY 12553

Re: Response to Preliminary Draft findings

Dear Ms. Blamah,

This letter is in response to the North Salem Central School District's preliminary "Draft" Report of Examination 2016M-209. The District would like to recognize the professionalism exhibited by the auditor while conducting the audit.

Upon receipt of the final report the district will review the report and your recommendations with the Audit Committee, Board of Education and all Administration. We will submit our corrective action plan addressing all recommendations after final discussions.

Sincerely,

Kenneth Freeston, Ph.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 procedures:

- We judgmentally selected two months for testing with a higher expectation of extra payments based on the collective experience of the audit team. We stratified the sample to employees receiving the largest number of checks and by employee type (clerical, maintenance, bus driver, etc.). We reviewed paychecks made to employees receiving in excess of 35 paychecks and a computer-generated random sample of other employees to determine if paychecks were proper.
- We reviewed extra time paid to employees for prior approval, submission for payment in the payroll period the time was worked and approval of time sheets concurrent with time worked.
- We judgmentally selected four months for leave testing with a higher expectation of leave usage based on the collective experience of the audit team. We stratified the sample by employee type (clerical, maintenance, bus driver, etc.) and reviewed leave usage to determine if leave records were accurate.
- We compared beginning and ending leave accruals and leave earned to contracts for all employees to determine if accrual records were accurate.
- We traced leave benefits used to appropriate leave request slips.
- We reviewed permissions of campus users and payroll staff in the time and attendance software and financial software for incompatible duties.
- We judgmentally selected the months where we anticipated the most changes in accruals and leave balances and reviewed the administrators' logins to determine if supervisors were reviewing the leave accrual activity for the months selected.

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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