



Valley Stream Central High School District

Payroll

Report of Examination

Period Covered:

July 1, 2014 – September 28, 2015

2016M-19



Thomas P. DiNapoli

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State of New York Office of the State Comptroller

Division of Local Government and School Accountability

April 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 Valley Stream Central High 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 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 Valley Stream Central High School District (District) is located in the Town of Hempstead, Nassau County. The District provides educational services to students in grades 7-12 in the following Union Free School Districts (UFSD): Valley Stream UFSD Thirteen, Valley Stream UFSD Twenty-four and Valley Stream UFSD Thirty. The District is governed by a nine-member elected Board of Education (Board), with three elected Board members from each of three Districts. The Board is responsible for the general management and control of the District's financial and educational affairs. The Superintendent of Schools (Superintendent) is the District's chief executive officer and is responsible, along with other administrative staff, for the day-to-day management of the District under the Board's direction.

The District operates four schools with approximately 4,600 students and 825 employees. The District's budgeted appropriations for the 2014-15 fiscal year were \$108 million, funded primarily with State aid and real property taxes. For the 2014-15 fiscal year, payroll and associated employee benefits costs totaled \$77.1 million, or about 74 percent of the District's total general fund expenditures of \$104.4 million.

Objective

The objective of our audit was to review the District's payroll transactions using computer-assisted auditing techniques (CAATs). Our audit addressed the following related question:

- Did District officials ensure the accuracy of salaries and wages paid to employees?

Scope and Methodology

We examined payroll transactions of the District for the period July 1, 2014 through September 28, 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

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 the findings in the report.

Payroll

Payroll costs represent a significant portion of the District's operating expenditures. The Board is responsible for ensuring that District employees are paid in accordance with collective bargaining agreements (CBAs), District policies and individual employee contracts. This also includes having a system in place to ensure that salaries and wages are properly and accurately recorded in the District's financial system. Establishing and adhering to strong procedures decreases the risk that fraud, abuse or errors may occur and go undetected and uncorrected.

District officials have effectively ensured the accuracy of salaries and wages paid to employees. They have established effective payroll-related policies and procedures. For example, timekeeping and payroll procedures require multiple levels of approval during the process, and all employee pay rates listed in the financial system are verified to the labor and employment agreements annually. In addition, duties within the payroll process have been segregated to ensure that one person does not have control of multiple aspects of the payroll process. For example, computer access levels to various payroll-related accounting functions have been limited to those employees who require access to perform their job duties. Timekeeping and supervisory functions are also segregated from payroll processing functions.

Using a combination of manual and CAAT procedures, we reviewed the payroll records for 825 employees during the audit period to identify high-risk transactions. This resulted in testing records for more than 4,200 checks and direct deposits to 652 employee bank accounts totaling \$60 million. See Appendix B for more information about our audit methodology.

Except for some minor discrepancies, which we discussed with District officials during our fieldwork, salaries and wages paid to employees matched Board-approved contracts and CBA stipulations. We commend the District for effectively designing and implementing policies and procedures that ensure the accuracy of salaries and wages paid provided to District employees.

APPENDIX A

RESPONSE FROM DISTRICT OFFICIALS

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

Valley Stream Central High School District
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Bill Heidenreich, Ed.D.
Superintendent of Schools
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March 31, 2016

[REDACTED]
Office of the State Comptroller
44 Hawley Street - Suite 1702
Binghamton, NY 13901

Re: Valley Stream Central High School District
Payroll, Report of Examination 2015M-019
July 1, 2014 – September 28, 2015

Dear [REDACTED]:

The Valley Stream Central High School District acknowledges receipt of the above referenced draft report of the recent audit conducted by your office. We have reviewed the report and concur with its findings.

The positive feedback we received affirms our efforts to operate with the highest degree of fiscal responsibility, transparency, and accountability to the students and taxpayers we serve. We are pleased that the audit commends the District's effective system of controls over the payroll process.

The audit report does not contain any adverse findings or recommendations. Accordingly, no corrective action plan is required with this response.

The District would like to express its appreciation to the Office of the State Comptroller and commend the members of the audit team for the professional and courteous manner in which they undertook their important responsibilities.

Sincerely,

Bill Heidenreich, Ed.D.
Superintendent of Schools

Frank Chiachiere, Ph.D.
Board of Education President

/rr

APPENDIX B

AUDIT METHODOLOGY AND STANDARDS

We used CAATs to review the District's employee salaries and wages.¹ We obtained various data sets from the District's computerized financial database and then performed tests on them using specialized software to identify anomalies and high-risk transactions. We also 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. Further, we reviewed the District's internal controls over payroll.

A significant portion of our testing used electronic accounting data from the District's accounting program. The overall population of electronic data for the audit period consisted of 4,245 payroll checks, 825 employees (all paid employees including part-time and substitutes) and 652 employee bank accounts. As part of our review of checks, we looked at additional pay items and payroll withholdings.

We used CAATs to calculate pay and perform detailed analyses of actual rates of pay made to certain employees in the District's financial system. We also used CAATs to determine the accuracy of multiple types of payments to employees. Additionally, we used CAATs to test withholdings and amounts reported on W-2 forms and to various agencies. We used multiple CAAT tests to determine if selected pay recipients were bona fide District employees.

Our audit steps included the following:

- We interviewed and observed District officials and employees to learn about payroll-processing procedures and related employee benefits and reviewed CBAs, employment agreements for non-union employees, personnel files, time and attendance records, leave records and other payroll source documents.
- We performed various audit procedures to test if the individuals paid were actual employees. These procedures included comparing employee Social Security numbers to the Social Security death master file and reviewing employee addresses outside of a 45-mile school radius, employee addresses with post office boxes or no address, any payroll checks with the same check number, any duplicate employee Social Security numbers, and employees using the same bank. We also judgmentally selected a sample of employees with the same name, address or phone number.
- To determine the accuracy of compensation paid to employees, we tested that the District withheld the appropriate portion of employees' Social Security and Medicare taxes, that all payments made prior to official dates of hire were for the appropriate amounts and were made to valid employees and that all payments made to employees through the check register agreed with federal earnings amounts as reported on the 2014 W-2 forms.

¹ The use of CAATs increases efficiency and enables testing on large data sets.

- We reviewed the appropriateness of certain payroll payments to employees. These payments included compensation paid to certain employees and key officials, balloon payments, checks written to employees who received more than 24 during a fiscal year, selected checks issued on dates that were not scheduled pay dates, longevity payments, separation payments and health insurance buyouts. We also judgmentally selected a sample of rounded payroll payments, payments made to employees after the termination date and overtime compensation paid to employees.
- We judgmentally selected employees and compared their salary rates with Board-approved salary schedules (including stipends) and traced the amounts to the CBAs and Board-approved employment contracts. We also reviewed the records of a judgmentally selected sample of employees with the 25 highest gross salaries to determine if the payments were paid in accordance with Board-approved contracts.
- We selected one month and recalculated reportable salary and withholdings for employee retirement benefits and verified that salaries reported and contributions withheld were accurate and appropriate. We also judgmentally selected a sample and determined the accuracy of health and dental insurance payroll withholdings.
- We performed data reliability tests, which included evaluating the propriety of manual checks and gaps in payroll check sequence numbers. We also judgmentally performed testing on the propriety of voided checks and employee direct deposits with the bank.

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.

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