



West Islip Union Free School District

Payroll

Report of Examination

Period Covered:

July 1, 2014 – August 31, 2015

2016M-78



Thomas P. DiNapoli

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State of New York Office of the State Comptroller

Division of Local Government and School Accountability

May 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 West Islip 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 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 West Islip Union Free School District (District) is located in the Town of Islip in Suffolk County. The District is governed by a 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 Board President is the District's chief financial officer. The Superintendent of Schools (Superintendent) 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 Assistant Superintendent for Business (ASB), among other duties, supervises two payroll clerks who process the biweekly payrolls and the District's Treasurer (Treasurer) who signs all District checks.

The District operates seven schools with approximately 4,600 students and 1,150 employees. The District's budgeted appropriations for the 2015-16 fiscal year were approximately \$117.8 million, which were funded primarily with State aid, real property taxes and grants. Total payroll expenditures for the 2014-15 fiscal year were approximately \$65 million.

Objective

The objective of our audit was to examine the District's payroll process. Our audit addressed the following related question:

- Did District officials ensure that biweekly payrolls were accurate?

Scope and Methodology

We examined the District's payroll disbursement records for the period July 1, 2014 through August 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 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 report.

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

A well-designed payroll processing system requires that the Board and District officials establish policies and procedures to provide guidance for 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, District officials should implement compensating controls. Effective compensating controls include providing oversight of payroll staff and having someone independent of the payroll preparation process certify the payrolls, which includes comparing 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 and District officials should do more to ensure the accuracy of biweekly payrolls. The payroll clerks are performing incompatible duties related to payroll processing, and District officials are not sufficiently monitoring or reviewing their work. In addition, the ASB is certifying payrolls after the payments have been disbursed, which increases the risk that the District may not detect incorrect payroll payments.

Segregation of Duties

Duties within the payroll process should be segregated to ensure that one individual does not control all phases of a payroll transaction. For instance, entering and changing employee payroll information (e.g., pay rates, salaries and withholdings), processing the payroll and printing and distributing payroll checks should not be performed by the same individual. When segregating payroll duties is impractical, District officials should implement compensating controls, such as providing increased management oversight or having an individual who is independent of the payroll process certify the payrolls. District officials also should review payroll change reports, generated by the District's payroll software application, on a routine basis to monitor the activity of those charged with processing the District's payrolls.

District officials did not properly segregate payroll duties or provide adequate supervision over the payroll process. Two payroll clerks are responsible for adding new employees into the payroll system, entering payroll changes, collecting timesheets, entering hours worked and printing and distributing payroll checks for all District employees. All of these duties are performed with minimal management oversight.

While the Treasurer is present when the checks are printed, one of the payroll clerks takes custody of the printed checks and distributes

them to the various buildings and department heads. This occurs before the Treasurer is able to compare the checks to the payroll register to ensure accuracy. As a result, the payroll clerks have the ability to create an employee, set the employee's pay rate, enter the hours worked and print and distribute the employee's paycheck, or change their own or an existing employee's pay rate or hours, without detection.

Although the ASB certified each payroll, the ASB's process used to certify the payrolls did not compensate for the inadequately segregated payroll duties.¹ In addition, the District's payroll software program has the capability to generate payroll change reports that identify changes made to personnel data in between payroll cycles. However, District officials have not prepared or reviewed these reports as part of the payroll process.

We examined 40 payroll disbursements totaling \$114,124² and found they were supported by approved timesheets and accurately calculated in accordance with applicable collective bargaining agreements and Board-approved pay rates. While we did not find any discrepancies in these payroll disbursements, because District officials did not adequately segregate the payroll clerks' incompatible duties, or provide adequate oversight of the clerks' work, the District has an increased risk that errors or irregularities could occur and remain undetected.

Payroll Certification

The Board should formally designate a District official to certify payrolls before checks are distributed. 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 payrolls does so in a thorough, accurate and timely manner.

The District's controls over payroll disbursements need to be improved. While the ASB has been certifying the District's payrolls since November 2012, the Board did not formally adopt a resolution designating her to do so. After we brought this to the attention of District officials, the Board formally designated the ASB to certify payrolls.³

In addition, District officials have not developed procedures for payroll certification. The ASB told us she scans the payroll journal for unusual information, such as unfamiliar names, questionable budget

¹ Refer to the Payroll Certification section for further information.

² Refer to Appendix B for further information on our sample selection.

³ During the December 2015 Board meeting

codes or inconsistent pay rates, then verifies it to source documents, if necessary. However the ASB does not produce any physical record of this certification process. Therefore, District officials cannot identify any of the transactions the ASB noticed as unusual and verified to source documents. The ASB also does not certify the payrolls until after the checks have been printed and distributed.

Because the ASB does not certify payrolls until after payments have been made, the Board cannot be assured that all payroll transactions are accurate, and the District has an increased risk that it will not detect incorrect payroll payments.

Recommendations

District officials should:

1. Segregate payroll-processing duties so that one individual does not control all aspects of payroll transactions. If it is impractical to adequately segregate the payroll clerks' duties, District officials should routinely monitor and review the payroll clerks' work.
2. Routinely generate and review payroll change reports to promptly identify, investigate and resolve any payroll discrepancies before the payrolls are submitted for certification.

The Board should:

3. Ensure that District officials develop payroll certification procedures.
4. Ensure that the ASB certifies the payrolls before checks are printed and distributed.

APPENDIX A

RESPONSE FROM DISTRICT OFFICIALS

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

WI
West Islip Public Schools
The Michael and Christine Freyer Administration Building
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BERNADETTE M. BURNS
Superintendent of Schools

April 22, 2016

Ira McCracken, Chief Examiner
NYS Office Building, Room 3A10
250 Veterans Memorial Highway
Hauppauge, New York 11788-5533

Dear Mr. McCracken:

The West Islip Union Free School District would like to thank the Office of the State Comptroller for its time and effort in performing a thorough review of the District's payroll process. We are pleased that the audit did not reveal any discrepancies in the payroll disbursements examined, and accept the audit findings and recommendations to provide increased oversight of the clerks' work to avoid any risk of errors or irregularities that could occur and remain undetected.

We would like to commend the audit team for its professionalism throughout this process, and appreciate the constructive feedback that was provided.

Sincerely,

Bernadette M. Burns
Superintendent of Schools

C: Board of Education
W. Duffy

APPENDIX B

AUDIT METHODOLOGY AND STANDARDS

To achieve our audit objective 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.
- During our audit period, the District processed 30 biweekly payrolls totaling approximately \$64.7 million. Of this total sample population, we selected four biweekly payrolls by choosing the first payroll processed during our audit period and then selecting every seventh until we had a sample of four payrolls. Using a random number generator, we randomly selected eight payments from each of the four payroll reports for a total of 32 payroll payments. We also judgmentally selected all eight payroll payments made to the two payroll clerks that were contained in the four payrolls for a total sample of 40 payments totaling \$114,124.
- We compared the information contained in the 40 payroll disbursements to collective bargaining agreement terms, personnel files and time accrual and leave records to ensure that the payments were properly authorized, supported and recorded.
- We reviewed the signed payroll certification forms for our audit period.

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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Tracey Hitchen Boyd, Assistant Comptroller

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