

New Paltz Central School District

Payroll

AUGUST 2021



OFFICE OF THE NEW YORK STATE COMPTROLLER
Thomas P. DiNapoli, State Comptroller

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Report Highlights

New Paltz Central School District

Audit Objective

Determine whether New Paltz Central School District (District) officials accurately paid employees' salaries and wages.

Key Findings

District officials generally paid employees' salaries and wages accurately but did not establish adequate controls over payroll.

- Payroll was not always properly reviewed and certified before payments were made.
- There was no support, such as time sheets, for \$1,497 of the \$40,688 (4 percent) paid to hourly/daily employees during the months reviewed.
- The District has not performed a payroll audit or payout test (e.g., requiring employees to pick up their payroll statements in person).

Key Recommendations

- Segregate payroll duties or establish adequate mitigating controls.
- Develop standardized District-wide timekeeping procedures.

District officials disagreed with certain findings but indicated they will take corrective action. Appendix B includes our comments on issues raised in the District's response.

Background

The District is located in Ulster County and serves the Town and Village of New Paltz. The District, which operates four schools, is governed by an elected seven-member Board of Education (Board).

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 (Assistant Superintendent) oversees the District's business operations, including payroll processing.

A payroll coordinator is responsible for processing all payroll payments.

2019-20 Quick Facts

Appropriations	\$63.6 million
Salaries/Wages	
Paid	\$34.1 million
Audited	\$565,786
Employees	656

Audit Period

July 1, 2019 – June 30, 2020

Payroll

How Should a District Ensure That Salaries and Wages Are Accurately Paid?

Payroll makes up a significant portion of a district's operating costs. Therefore, district officials should establish procedures to ensure employees are paid the salaries and wages authorized by the board. The board should establish and approve all salary and hourly wages as part of a collective bargaining agreement (CBA), individual contract or resolution. The terms and conditions of all employment agreements should be clearly communicated to those responsible for payroll processing. Additionally, payroll authorizations should be segregated from payroll preparation and processing. Individual payroll amounts should be traceable to authorization documents and supported by time and attendance records. Any changes in employment status or salary and wage rates should be properly authorized, approved and documented to support the changes. Each payroll should be reviewed for accuracy by someone outside of the payroll process. Finally, before checks are distributed, payroll registers or similar records should be reviewed and independently certified to provide oversight of the payroll process.

Controls Over the Payroll Process Were Not Adequately Segregated

An incompatible duty is one that would put one individual in the position of being able to both commit an irregularity and then to conceal it. For payroll, the activities considered to be generally incompatible are personnel (hiring, firing, pay rate setting, benefits and changes), timekeeping and supervision, and payroll processing and check distribution. The District does not have adequate segregation of duties in the payroll process. The payroll coordinator can make changes to pay rates, process payroll and distribute payroll checks. Further, the payroll coordinator and all five business office employees have access to all payroll functions in the finance application system, including the ability to add, delete or modify employee pay rates.

District officials also did not adequately review and monitor the payroll process. Although the Board designated the Superintendent or the Assistant Superintendent to certify payrolls, we reviewed the October through December 2019 payrolls and did not find any evidence of certification. The payroll coordinator also told us that the District has never performed any payroll audit or payout (e.g., requiring employees to periodically pick up their payroll statements in person). This is because the Board has not adopted adequate payroll policies to establish guidelines for segregating payroll duties, and monitoring and supervisory activities.

In addition, while the payroll system can generate payroll change reports, no one receives or reviews these reports. As noted by the previous internal audit, the payroll clerk does not generate these reports. By reviewing payroll change

The payroll coordinator can make changes to pay rates, process payroll and distribute payroll checks.

reports, someone independent of payroll processing could identify payroll changes made throughout the year (such as employees added to the payroll or salary increases) and review the supporting documentation to determine whether changes are appropriate and authorized.

District officials and Board members are aware of the lack of segregation of duties within the District's payroll process. They are taking steps to address the associated inherent risks, including creating the Treasurer's position. The Assistant Superintendent further told us that she is working on re-aligning the business office employees' duties to ensure they are adequately segregated. Inadequate segregation of duties within the payroll process increases the likelihood of an employee carrying out actions to benefit themselves or friends/related parties. This could include creating ghost/fictitious employees, increasing hourly rates or salaries, manipulating employee deductions and/or recording overtime not worked without being detected.

Employee Salaries and Wages Were Not Always Supported and Documented

The District requires approved time sheets for hourly and daily employees, and for overtime to support payments. Departmental time and attendance records are reviewed and signed by supervisors and then submitted to the payroll coordinator for processing. The payroll coordinator inputs the time and attendance information and prepares and prints the checks.

We examined the annual gross salary and wages paid to 20 employees totaling \$565,786 for the 2019-20 fiscal year to determine whether they were paid accurate amounts. Except for minor issues discussed with District officials, we found that employees tested were accurately paid.

To determine whether time sheets were properly approved and authorized, we selected eight payrolls during the audit period (months of November 2019, December 2019, March 2020 and June 2020) and examined the biweekly amounts paid to the same 20 employees totaling \$98,280. Time sheets were not available to support \$1,497 (4 percent) of the wages paid to three daily and hourly employees.

A lack of standardized timekeeping processes within the District's various departments led to inaccuracies and insufficient timekeeping practices, and employee pay that was not supported by time and attendance records. When employee pay is not supported by time and attendance records, the risk increases that employees are receiving pay for time not actually worked or for unauthorized absences.

A lack of standardized timekeeping processes... led to... employee pay that was not supported....

What Do We Recommend?

District officials should:

1. Develop procedures over the payroll function to segregate duties, or when not possible, establish mitigating controls in the form of supervisory review.
2. Adhere to established payroll policies requiring supervisory overview, including certification of payrolls.
3. Ensure that someone independent of payroll processing periodically reviews payroll change reports and supporting documentation to determine whether changes are appropriate and authorized.
4. Develop policies and procedures that establish standardized District-wide timekeeping procedures.

Appendix A: Response From District Officials



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July 6, 2021

Ms. Lisa Reynolds
Chief Examiner of Local Government and
School Accountability
Newburgh Regional Office
33 Airport Center Drive, Suite 103
New Windsor, NY 12553
SENT VIA EMAIL

Dear Ms. Reynolds:

It was a pleasure working with the audit team who conducted the field work for the risk assessment and payroll audit of New Paltz Central School District.

In response to the audit report findings and recommendations, below is a summary of what the District has found, as well as the plan to move forward.

Incorrect Rates: Both people that were cited moved to different positions than those listed in their CBAs. One employee moved into a different bargaining unit. Consequently, the Board of Education approved their new appointments and salaries. Contracts are not opened or renegotiated for such changes.

See
Note 1
Page 7

Time Sheet Issues: The timesheets for the referenced payments were identified and reviewed, and it was confirmed that the employees in the sample did have approved timesheets that supported the payments that were made. Unfortunately, the timesheets were not submitted to the audit team prior to the report being presented.

See
Note 2
Page 7

Other Issues and Recommendations:

- Payroll began running Payroll Change Reports in March 2020, and they are reviewed and initialed by the Assistant Superintendent for Business each pay period. Payroll is also certified every pay period. The District plans to begin doing “live” annual payroll audits, starting in the 2021-22 school year.
- Although the Payroll Clerk processes payroll and distributes paychecks, the Treasurer or Deputy Treasurer prints the checks when they sign them, as a mitigating factor.

-
- Payroll authorizations in the District’s payroll system overlap with HR functions, and will be realigned between the Payroll Clerk and the Personnel Clerk as the Business Office moves forward.
 - As the Business Office continues to restructure, internal process and controls will be examined and realigned where necessary.

Thank you for your work and assistance.

Respectfully,

Sharifa S. Carbon

Appendix B: OSC Comments on the District's Response

Note 1

We amended the report based on additional information received after the exit conference.

Note 2

On numerous occasions during the audit period, the audit team requested District officials to provide documentation supporting the hours paid. However, District officials did not provide any additional documentation until after the official response time had elapsed. Further, only four hours out of the 65.5 hours paid without time sheets could be supported by the time sheets presented to the audit team.

Appendix C: Audit Methodology and Standards

We conducted this audit 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. To achieve the audit objective and obtain valid audit evidence, our audit procedures included the following:

- We reviewed District policies and procedures to identify those related to payroll processing.
- We interviewed District officials and employees and reviewed employee time cards, Board resolutions, payroll reports and payroll worksheets to gain an understanding of the payroll process.
- From July 1, 2019 through June 30, 2020, payroll disbursements to 656 employees amounted to \$34.1 million. Of the 656 employees, 188 were newly employed during fiscal year 2019-20. We used our professional judgment to obtain a sample of 20 employees with total payments of \$565,786 from the 188 newly employed employees based on the weighted averages of their positions. We recalculated payroll payments to these employees during the months of November 2019, December 2019, March 2020 and June 2020. We also reviewed these employees' time sheets for proper approvals, documentation and overtime hours.
- From July 1, 2019 through June 30, 2020, 92 employees earned overtime totaling \$449,564. To test whether employees were paid for overtime hours worked in accordance with employee agreements, union contracts and/or Board-approved pay rates, we randomly selected a sample of 10 employees with a total of \$21,680 in paid overtime from fiscal year 2019-20 payroll data. We recalculated the overtime amount paid to employees based on the calculation rates as provided for in the various CBAs.
- To test for the accuracy of employees' deductions and withholdings, we selected all business office employees because of their proximity and access to the financial management system and an additional sample of 20 employees using our professional judgment based on the weighted averages of their positions. We calculated the percentage of the amounts withheld for FICA and Medicare for fiscal year 2019-20 for these employees and compared them to the expected percentage per the Internal Revenue Service website.

We conducted this performance audit in accordance with generally accepted government auditing standards (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.

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.

The Board has the responsibility to initiate corrective action. 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, 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. 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 CAP should be posted on the District's website for public review.

Appendix D: Resources and Services

Regional Office Directory

<https://www.osc.state.ny.us/files/local-government/pdf/regional-directory.pdf>

Cost-Saving Ideas – Resources, advice and assistance on cost-saving ideas

<https://www.osc.state.ny.us/local-government/publications>

Fiscal Stress Monitoring – Resources for local government officials experiencing fiscal problems

www.osc.state.ny.us/local-government/fiscal-monitoring

Local Government Management Guides – Series of publications that include technical information and suggested practices for local government management

<https://www.osc.state.ny.us/local-government/publications>

Planning and Budgeting Guides – Resources for developing multiyear financial, capital, strategic and other plans

www.osc.state.ny.us/local-government/resources/planning-resources

Protecting Sensitive Data and Other Local Government Assets – A non-technical cybersecurity guide for local government leaders

<https://www.osc.state.ny.us/files/local-government/publications/pdf/cyber-security-guide.pdf>

Required Reporting – Information and resources for reports and forms that are filed with the Office of the State Comptroller

www.osc.state.ny.us/local-government/required-reporting

Research Reports/Publications – Reports on major policy issues facing local governments and State policy-makers

<https://www.osc.state.ny.us/local-government/publications>

Training – Resources for local government officials on in-person and online training opportunities on a wide range of topics

www.osc.state.ny.us/local-government/academy

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