



Germantown Central School District

Payroll

2023M-3 | September 2023

Contents

- Report Highlights 1**

- Payroll. 2**
 - How Should School District Officials Ensure Employee Compensation Is Accurate, Supported and Authorized? 2
 - Officials Did Not Provide Adequate Oversight of Payroll Functions . . . 3
 - Employee Compensation Was Not Always Accurate or Supported . . . 4
 - What Do We Recommend? 6

- Appendix A – Response From District Officials 7**

- Appendix B – Audit Methodology and Standards 9**

- Appendix C – Resources and Services. 11**

Report Highlights

Germantown Central School District

Audit Objective

Determine whether Germantown Central School District (District) officials accurately paid employees and the compensation was supported and authorized by the Board of Education (Board).

Key Findings

The District did not have adequate payroll processes to ensure compensation paid to employees was accurate, adequately supported and authorized by the Board.

- District officials did not properly segregate payroll processing duties and did not provide adequate oversight.
- We identified \$41,000 in payroll payments to 12 employees that were either inaccurate or not authorized by the Board.

Key Recommendations

- Assign personnel and payroll processing duties to separate individuals and provide adequate oversight of the work performed by these employees.
- Ensure that employees are paid in accordance with approved salaries and/or collective bargaining agreements.

District officials generally agreed with our recommendations and have initiated, or indicated they planned to initiate, corrective action.

Background

The District serves the Towns of Ancram, Clermont, Gallatin, Germantown, Livingston and Taghkanic in Columbia County.

The District is governed by an elected seven-member Board that is responsible for the general management and control of the District's financial and educational affairs.

The District Superintendent (Superintendent) is the District's chief executive officer and is responsible, along with the Business Administrator, for the District's day-to-day management under the Board's direction.

Quick Facts

2021-22 Adopted Budget	\$16.3 million
2021-22 Payroll Expenditures	\$7.2 million
Employees	183
Enrollment	520

Audit Period

July 1, 2021 – September 20, 2022. We extended the scope back to July 9, 2020 to review the payroll for one employee to determine whether the longevity was paid correctly.

Payroll

How Should School District Officials Ensure Employee Compensation Is Accurate, Supported and Authorized?

School district officials should establish effective procedures to ensure that employees are accurately paid the compensation authorized by the school board and there is adequate support for all payroll payments.

Payroll makes up a significant portion of a school district's operating costs. Officials should have an effective payroll system in place to ensure payroll transactions are supported by appropriate documentation, authorized by the school board and paid accurately. School boards should approve employee compensation rates through collective bargaining agreements (CBAs), individual contracts and board-established rates. CBAs and employment contract language should clearly state employees' work schedules and compensation schedules. Additionally, school district officials should provide all employee agreements and supporting documentation, such as timesheets and leave requests, to individuals responsible for payroll processing to ensure payroll is calculated accurately for each employee.

Officials should also ensure effective payroll procedures include proper segregation of payroll duties so that one individual does not perform all of the following functions:

- Payroll authorization (i.e., hiring, termination, setting pay rates, administering employee benefits and changing payroll data),
- Employee time and attendance recordkeeping,
- Payroll processing, and
- Check distribution.

For example, the personnel department or an employee who does not process the payroll register and payroll checks should enter payroll changes into the computerized payroll system.¹ If it is not possible to segregate duties, officials should establish compensating controls to provide additional review and approval of the payroll processes.

Furthermore, school district officials should properly authorize, approve and document any changes in employment status or salary and wage rates. Because school district administrators often have the ability to override or alter processes and controls, and are typically the final approval for payroll, school districts have an increased risk that management-level employees could manipulate their payroll information without authorization or detection. Before distributing checks,

¹ For more information related to this issue, refer to: [Local Government Management Guide - The Practice of Internal Controls \(state.ny.us\)](#).

an employee independent of the payroll process should review and certify payroll registers or similar records to provide oversight of the payroll process. Without properly segregating duties and reviewing and certifying records, school district officials cannot ensure the school district has accurately paid employees' salaries and wages.

Officials Did Not Provide Adequate Oversight of Payroll Functions

Officials did not adequately train staff, segregate payroll duties or establish sufficient compensating controls over the payroll process.

The Board approves new positions, authorizes employee hiring and approves employee compensation through CBAs, contracts and Board resolutions. The Superintendent is responsible for certifying payroll prior to distribution. The Business Administrator is responsible for payroll processing. For the 2021-22 school year, the District contracted with the Questar III Board of Cooperative Educational Services (BOCES) to process its payroll after the District provides payroll information to them.

During the 2021-22 school year, the Business Administrator performed the following duties without any oversight or verification by another District official or employee:

- Entered new employee information in the payroll processing system,
- Updated salary information in the payroll processing system at the start of the year,
- Compiled biweekly payroll information into a spreadsheet including:
 - Payroll claim forms for overtime
 - Extra pay for additional duties
- Provided the payroll spreadsheets to a BOCES employee who entered the information into the payroll system, and
- Reviewed final payroll reports.

The Treasurer signed the checks before they were distributed to employees without verifying the data entered by the Business Administrator was accurate and agreed with individual contracts, CBA pay rates or longevity and tenure payments.

The Business Administrator told us that the Superintendent was certifying payroll before checks and direct deposits were disbursed. However, the Superintendent told us he did not review or sign off on anything related to the payroll process until the Business Administrator asked him to sign the certifications for the entire 2021-22 school year in August 2022. We obtained the certifications for the 2021-22 school year and verified the Superintendent's signature. However, the certification

Officials did not adequately train staff, segregate payroll duties or establish sufficient compensating controls over the payroll process.

forms were not dated. When payrolls are not certified in a timely manner, the risk is increased that errors and irregularities in the amounts disbursed would not be identified and corrected.

In the 2022-23 school year, the Business Administrator handled all of the payroll processing because the BOCES central business office closed. The Business Administrator reviewed the payroll change reports that compared the current payroll to the previous payroll to check for consistency. When the Business Administrator completed her review, she gave the payroll reports to the District Clerk (Clerk) to review for accuracy.

The Clerk told us she did not receive any training on how to review the payroll. She did not receive or request any supporting documents to verify the payroll's accuracy. Her review consisted of reviewing a payroll change report that compared the current payroll to the previous payroll for any discrepancies. When completed, the Clerk signed the payroll change report to indicate her review was complete and returned the payroll reports to the Business Administrator, who uploaded the direct deposit file, initiated payments and printed checks for individuals that were not registered in the direct deposit system. The Superintendent did not begin reviewing or certifying payroll until August 18, 2022.

Because District officials did not develop adequate payroll processing procedures, properly train individuals involved in the payroll process, segregate payroll duties, and ensure the Superintendent certified payrolls, the District has an increased risk that unauthorized and incorrect payments could be made.

Employee Compensation Was Not Always Accurate or Supported

We examined the annual gross salary, wages and supplemental payments to 15 employees² from July 2021 through June 2022 totaling \$1.1 million and the September 15, 2022 payroll in the 2022-23 school year totaling \$45,000 to determine whether employees were paid accurately. We calculated gross pay amounts and identified \$41,000 in payroll payments to 12 employees that were either inaccurate or not Board-authorized. For example:

- The Business Administrator, who was responsible for payroll processing, was paid \$19,000 for 490 hours she reported working outside of her normal workday. The Superintendent informed us that he approved overtime work on three occasions and that he was unaware of the full extent of the overtime for which the Business Administrator had been compensated. In addition, Board members did not authorize the payments and were unaware the Business Administrator was paying herself for overtime because the Superintendent did not review or certify payroll-related payments.

We ...
identified
\$41,000
in payroll
payments to
12 employees
that were
either
inaccurate or
not Board-
authorized.

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

-
- The District did not pay supplemental contractual payments to two employees when they earned them. The Business Administrator attempted to correct the errors, which resulted in \$6,300 of overpayments.
 - The District did not pay longevity payments due to one employee, according to the CBA, for three years and identified the error in the 2020-21 fiscal year. District officials incorrectly added the longevity to the employee's base salary, resulting in the base salary being overstated in subsequent years and a cumulative overpayment of \$3,700. The initial error occurred during a previous administration, so District officials were unable to explain why the District did not make these payments in a timely manner.
 - A second employee did not receive a \$2,500 tenure amount that should have been added to their base salary in November 2020.³ The Business Administrator attempted to correct the error in the 2021-22 school year, which resulted in an overpayment of \$2,600. The overpayment occurred because the Business Administrator's correction of the error did not coincide with the CBA's terms. District officials were unable to explain why the payments were not made in a timely manner and agreed that the subsequent correction was incorrect.
 - The District paid two employees a total of \$4,300 in stipends for Transportation Coordinator, Board Clerk and Registrar that were not supported by Board resolutions authorizing the stipend amount. This occurred because the Business Administrator followed the District's past practice to pay employees stipends for performing these additional responsibilities. However, there was no documented approval for the stipend amounts paid. The Board properly appointed both employees to the positions; however, it did not approve a stipend payment schedule or the additional pay.
 - The District paid four employees at incorrect rates that were not supported by contracts totaling \$1,300. District officials could not explain why these employees were paid at incorrect rates.

In addition, the Business Administrator used an external email she received to redirect an employee's direct deposit into a different bank account. The employee did not request or authorize the direct deposit change. Because the Business Administrator did not confirm the change request with the employee, \$7,900 was deposited into a bank account that did not belong to the employee. While officials paid the employee the \$7,900 earned, officials have not made any efforts to recover the \$7,900.

³ This resulted in \$1,600 underpayment made in the 2020-21 school year.

Because the District lacked adequate oversight of the payroll duties, did not segregate payroll duties and did not ensure that employees were paid according to authorized contracts and CBAs, the District made payroll payments without adequate supporting documentation. This increased the risk that employees could be paid more or less than authorized. When we discussed the payroll weaknesses and errors with District officials, the Superintendent began to receive and review payroll change reports. The Board began discussion with the District's attorney to determine the appropriate actions to take to correct the identified errors.

What Do We Recommend?

The Board and District officials should:

1. Consult with legal counsel and determine the appropriate course of action to address the overpayments identified in this report.
2. Develop and approve stipend schedules that clearly identify the amounts to be paid to the employees performing the related duties.

District officials should:

3. Develop payroll procedures that segregate incompatible duties.
4. Assign personnel and payroll processing duties to separate individuals and provide adequate training for, and oversight of, employees who perform these functions.
5. Ensure someone outside of the payroll process performs a proper review of payroll.

The Superintendent should:

6. Certify payroll prior to the funds being released for payment.

Appendix A: Response From District Officials



Germantown Central School District

123 Main Street Germantown, NY 12526

9/14/2023

Office of the New York State Comptroller
Division of Local Government and School Accountability
110 State Street, 12th Floor, Albany, New York 12236

The Germantown Central School District has received and reviewed the draft audit report concerning the District payroll process between July 1, 2021 - September 20, 2022 (Report of Examination 2023M-3).

We appreciate the comptroller's time and efforts provided in the audit and providing insight into the District's processes and areas of improvement. The District agrees with the findings within the audit report. The District would like to inform the comptroller that the findings within the report were those of previous administration within the District's Business Office.

Since the audit findings the district has taken the following actions to address the findings and improve District procedures.

The audit found that the District did not have clean and clear payroll procedures that included segregation of duties involving payroll. The District hired a Part-Time Payroll Clerk in April of 2023. This position is responsible for entering all payroll timesheets and salary information into the District's Financial System. This then allows the Business Administrator and Superintendent to review payroll before payroll is released and checks issued. This change is effective April 2023.

The audit found that the District was not providing adequate training and oversight for employees performing payroll duties. Upon hiring a new Business Administrator in January of 2023, training was provided through the Capital Region BOCES (Boards of Cooperative Educational Services) on the processing procedures within the financial system for payroll. This training allowed the new Business Administrator to develop the payroll process to separate duties and ensure payroll was reviewed before being released to employees. In addition, upon hiring the Payroll Clerk the District provided training through the new Business Administrator and Capital Region BOCES. This was implemented in January 2023 and April 2023 upon hiring the new Business Administrator and Payroll Clerk.



Germantown Central School District

123 Main Street Germantown, NY 12526

The audit found that the Germantown Board was not approving annual stipend schedules for the school year. At the August 2023 Board of Education meeting the Board approved all stipends for the 2023-2024 school year and every August the board will approve stipends for the upcoming school years moving forward.

Lastly, the audit found that the district did not certify payroll prior to funds being released for payment and that anyone outside the payroll departments performing proper review before payroll was released. The District now has the Superintendent review every payroll along with multiple reports prior to payroll being released and checks being issued. This includes Superintendent signatures on all aspects of the payroll forms created by the payroll clerk.

The District would like to thank the Comptroller's Office for their time and support during this audit.

Sincerely, _____

Benjamin Bragg

Superintendent

Appendix B: 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 interviewed District officials and employees to gain an understanding of payroll processing procedures.
- We reviewed Board meeting minutes, resolutions and Board-adopted policies.
- We used our professional judgment to select 11 individuals by categorizing each employee based on the contract/CBA their position was under to obtain a sample of all CBAs, as well as all four Business Office staff who had access to the financial system. For these 15 individuals, we compared the payroll summary reports from the financial system to respective employee contracts to determine whether the employees' salaries and other compensation, such as stipends, were authorized by the Board and correctly calculated based on the terms of their respective contracts. We traced to payroll claim forms for hourly employees and support staff that were entitled to additional pay for tasks such as building checks, overtime and substitute teaching. We also used employee attendance records to determine whether vacation/sick/personal buybacks were accurately calculated. When we determined variances, we used other supporting documentation, such as copies of employees' check stubs and discussions with employees and District officials.
- We reviewed the listing of all employees paid from the fiscal year-to-date earnings report to determine whether all employees listed on the payroll matched the employee master file.

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 C: Resources and Services

Regional Office Directory

www.osc.state.ny.us/files/local-government/pdf/regional-directory.pdf

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

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

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

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

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

Contact

Office of the New York State Comptroller
Division of Local Government and School Accountability
110 State Street, 12th Floor, Albany, New York 12236

Tel: (518) 474-4037 • Fax: (518) 486-6479 • Email: localgov@osc.ny.gov

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

Local Government and School Accountability Help Line: (866) 321-8503

GLENS FALLS REGIONAL OFFICE – Gary G. Gifford, Chief of Municipal Audits

One Broad Street Plaza • Glens Falls, New York 12801-4396

Tel (518) 793-0057 • Fax (518) 793-5797 • Email: Muni-GlensFalls@osc.ny.gov

Serving: Albany, Clinton, Columbia, Essex, Franklin, Fulton, Greene, Hamilton, Montgomery, Rensselaer, Saratoga, Schenectady, Warren, Washington counties