



University Preparatory Charter School for Young Men

Payroll

2023M-123 | December 2023

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Report Highlights

University Preparatory Charter School for Young Men

Audit Objective

Determine whether University Preparatory Charter School for Young Men (School) officials accurately compensated employees.

Key Findings

School officials did not always accurately compensate employees or require adequate support for hours worked. Therefore, payroll errors went undetected and resulted in unnecessary and erroneous payments. We reviewed policies and documents and examined payroll-related records for 25 of the 138 individuals employed by the School and determined:

- Officials lacked records to support compensation totaling \$18,527 they paid three hourly employees.
- Twelve employees received pay that was not consistent with their employment agreements, authorized pay rates or Board of Trustees (Board) policy resulting in compensation errors totaling \$5,188.
- Officials could not support they provided the Board with sufficient information for the Board to perform its oversight duties or ensure that the Chief Executive Officer (CEO) authorized salaries within the Board-approved range.
- Officials did not adequately segregate payroll duties or establish sufficient compensating controls, which could allow other discrepancies to occur.

Key Recommendations

- Ensure employees are paid in accordance with employment agreements, approved salaries and pay rates and applicable Board policies.
- Consult with legal counsel and determine the appropriate course of action to address the overpayments and underpayments identified.

School officials agreed with our recommendations and indicated they will initiate corrective action.

Background

The School is located in the City of Rochester in Monroe County.

The School is governed by the nine-member Board that is responsible for the general management and control of the School's financial and educational affairs.

The School's CEO is responsible, along with the Chief Operating Officer (COO) and other administrative staff, for the School's day-to-day management under the Board's direction including overseeing payroll. The current COO started in October 2021.

The Director of Business (Business Director) is responsible for payroll processing. The Human Resources Manager (HR Manager) is responsible for time and attendance, entering new employees and pay rates into the payroll software and maintaining personnel files. The current HR Manager started in December 2021.

Quick Facts

July 1, 2021 through April 21, 2023

Employees	138
Payroll	\$8.7 million

Audit Period

July 1, 2021 – August 23, 2023

Payroll

How Can Officials Ensure Employees Are Accurately Compensated?

A school board, or its designee, should authorize and approve all salaries and any additional compensation, such as stipends, provided to employees. Approval should be documented, such as by school board resolution, school board-approved policy, employment agreement or salary notice. This written documentation communicates the intent to employees and to the staff who are responsible for administering and processing payroll. A school board is also responsible for establishing and monitoring compliance with written payroll and personnel policies and procedures to ensure employees are accurately compensated.

Individual payroll amounts should be traceable to authorization documents and supported by time and attendance records. The School's Board-adopted employee handbook required hourly employees to maintain timecards using the electronic timekeeping system to document days and hours worked. Timecards should be reviewed and approved by supervisory personnel. The handbook also required prior written authorization to work overtime.

To mitigate risk and help ensure accuracy, a school official (such as the CEO) should review and approve payroll registers before payments are made. A review of the payroll register should help detect unusual or inaccurate payments requiring further verifications. The approval of the payroll register should indicate that to the best of the official's knowledge, services were actually performed by the persons listed on the payroll and that days and hours worked, including overtime, are accurate, approved and supported.

Individual payroll amounts should be traceable to authorization documents and supported by time and attendance records.

Certain Employees Were Not Accurately Compensated

Of the 25 employees we tested, 12 employees received pay that was not consistent with employment agreements, authorized pay rates, salary notices or Board policy resulting in compensation calculation errors totaling \$5,188. Five employees received additional compensation totaling \$1,155 and seven employees were underpaid a total of \$4,033. This included incorrect prorated salaries, daily rates, stipends and timecard calculation errors. For example:

- One employee was underpaid \$2,093 because officials did not correctly prorate their 10-month salary when they changed to a 12-month position during the school year.
- One employee was overpaid \$771 because their salary was not prorated for a mid-year salary increase. The Business Director stated that the former COO told her that the increased salary amount would be paid in total for the year, instead of it being prorated for the portion of the year after the increase. However, she was unable to provide documentation to support that method of payment.

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- Six employees were underpaid a total of \$1,580 and two employees were overpaid a total of \$326 because daily rates were incorrectly calculated. The Business Director told us that she was unaware that the employment agreements set the daily rate for unused vacation days (1/240 of salary) and the Board-adopted policy set for the daily rate for 10-month employees (1/200 of salary) at rates that varied from those she used for these calculations (1/260 of salary). However, as the person responsible for processing payroll, she should have been aware of the language in the employment agreements and policies.
 - One employee was also underpaid \$360 for a monthly phone stipend because they were paid \$30 per month instead of the \$50 stated in the employment agreement. Officials told us this occurred because other employees' monthly phone stipends were \$30, but the employee should have been paid the amount in their specific agreement, not the amount that other employees are paid.

The Business Director told us that some of these discrepancies occurred due to staff turnover. In addition, it was the first time she and the HR Manager encountered situations such as calculating prorated salaries, and they did not have specific guidance for preparing the calculations. School officials updated the employee handbook for the 2022-23 school year to include guidance for the proration of 10-month employee salaries when a partial year is worked but did not include guidance for the documentation and review of these calculations. Had there been procedures in place to provide detailed proration calculations and payments for unused leave days to the COO or CEO for review, the inaccurate pay rates may have been detected and corrected. In addition, the systemic issues, such as incorrect daily rates used, could affect other employees that we did not test.

Documentation Was Not Always Available to Support Compensation

We were unable to determine whether certain employees were accurately compensated due to the lack of supporting documentation. Specifically:

- Three hourly employees were paid a total of \$18,527 without timecards to support the hours worked or leave time used. School officials did not provide adequate explanations for why they did not have support for the hours paid to these employees.
 - For one employee, the Business Director told us that the employee was not required to maintain timecards when he started, in part, because he had a set schedule. However, the number of hours paid varied throughout his first 14 pay periods before he started using the electronic timekeeping system. Furthermore, he was paid for more than 64 hours of overtime during this period when he did not prepare timecards.

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- For another employee, the Business Director told us that there was a delay in adding the employee to the electronic timekeeping system. However, he could have prepared manual timecards before he was able to maintain his time electronically. Instead, the Business Director told us that the employee's time worked was verbally confirmed with the department head.
 - For the third employee, the CEO, COO and Business Director told us that it was a unique situation with a period of time during which the employee worked partial days and used leave for the remainder of scheduled time not worked. While Board policy did not authorize leave donations, the COO and CEO approved the donation of sick leave for this employee's use. The donated leave totaled 240 hours, for which she was paid \$3,600. However, she was paid for more than 75 hours beyond the supported time worked and donated leave.
 - Six employees were paid a total of \$9,960 for stipends and additional hourly work for which the Board or CEO did not authorize the stipend amount or hourly rate.
 - Two employees were paid a total of \$1,320 (\$660 each) for cell phone stipends that were not explicitly authorized. The Business Director told us that these were authorized in the budget and approved each month through payroll approval. However, while the budget had a phone stipend for these employees' departments, it did not specifically state an individual, or position, that would receive it.

Furthermore, for overtime hours worked, prior approval was not documented, as required by the employee handbook. The CEO and COO told us that overtime was generally approved verbally, often due to the timing of unexpected overtime needs. However, officials also did not follow up to document the verbal approval of overtime.

Also, five multiyear employment agreements allowed for the Board to determine future-year salaries. However, the Board meeting minutes did not include authorization of these salaries. Two Board members, the CEO, COO, Business Director and HR Manager told us that the Board authorized these salaries by the amount included in the budget. Therefore, \$52,649 was paid based on the budgeted salary and did not have other documented Board authorization. A budget is a financial plan and the Board should authorize salaries more directly.

In addition, although Board policy required the CEO to inform the Board annually each September of employee salaries and prior year earnings, officials could not support that this information was provided to the Board and the Board meeting minutes did not indicate it was provided. This information provides the Board with the opportunity to review and monitor employee salaries. The CEO told us

that certain detailed salary information was provided to the Board during the budget process, but officials were unable to provide documentation to support that all of the required information was provided to the Board. While certain salary information was detailed in the budget, other information was grouped by department or position and not detailed by individual employees. Without this information, the Board cannot perform its oversight duties or ensure that the CEO authorized salaries within the Board-approved range.

Although the COO and CEO reviewed and approved the payroll registers prior to the final payroll processing and the CEO signed off on the final payroll, these discrepancies went undetected. The COO and CEO did not review timecard hours to reconcile them to the payroll registers during their payroll review as required by School procedure.

Additionally, officials did not adequately segregate payroll duties or establish sufficient compensating controls, which could allow other discrepancies to occur. The Business Director, who processed payroll, also had access in the payroll software to adjust salaries and pay rates. This is problematic because changes to salaries or pay rates could occur without the proper authorizations and approvals. The HR Manager and the COO also had access to add or change salaries and pay rates and process payroll. The Business Director told us that the software did not provide options to limit access for her and the HR Manager without removing access they needed to perform their job duties.

The Business Director entered all salaries and pay rates for the start of the 2021-22 school year because the HR Manager position was vacant. After the position was filled, the HR Manager entered regular salary and pay rates, but the Business Director still entered stipends and other rates for additional pay in the payroll software. Furthermore, School officials did not generate or review change reports which would indicate any salary or pay rate changes made. The COO told us that he was unaware that the software allowed them to produce change reports until after our inquiry.

Due to these control weaknesses, there is an increased risk that significant errors or unauthorized changes could occur and go unnoticed, resulting in employees being paid incorrectly. Without an adequate review process, the Board and officials cannot provide assurance employees are being paid accurately or as intended.

...[O]fficials did not adequately segregate payroll duties or establish sufficient compensating controls. ...

What Do We Recommend?

The Board should:

1. Consult with legal counsel and determine the appropriate course of action to address the payroll overpayments and underpayments identified.
2. Explicitly authorize all salaries, pay rates and stipends or ensure, when applicable, the CEO authorizes them.
3. Ensure written policies are disseminated to staff and require staff training or designated time for employees to review the policies relevant to their job duties.
4. Ensure the CEO provides an annual report of the salaries and the previous year annual earnings for each employee, as required.

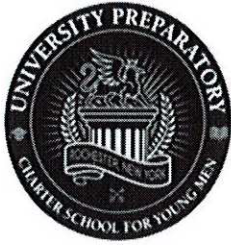
The CEO should:

5. Ensure Board-approved employment agreements are provided to the Business Director and HR Manager.

School officials should:

6. Ensure hourly employees prepare timecards, overtime hours have written prior approval and employees are paid in accordance with employment agreements, approved salaries and pay rates and applicable Board policies.
7. Adequately review payroll for accuracy, including reconciling timecards to the payroll records, and ensure there is support for the hours and amounts paid.
8. Establish procedures for calculating and reviewing detailed prorated salary payments.
9. Evaluate payroll software access controls and segregate duties or establish compensating controls, such as reviewing change reports.

Appendix A: Response From School Officials



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November 13, 2023

Edward V. Grant, Jr.
Division of Local Government
and School Accountability
Office of the New York State Comptroller
110 State Street
Albany, NY 12236

Dear Mr. Grant,

We have reviewed the draft audit report and have met with your team to review the findings and recommendations. We are in agreement with all recommendations.

The Board and School Officials will work to develop a comprehensive corrective action plan to address the findings and recommendations and will continue to improve our operations.

Sincerely,


Walter Larkin, Jr.
Chief Executive Officer

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 Section 2854 of the New York State Education Law, as amended by Chapter 56 of the Laws of 2014. To achieve the audit objective and obtain valid audit evidence, our audit procedures included the following:

- We interviewed School officials and employees and reviewed written policies, procedures, the employee handbook, the School's bylaws and Board meeting minutes to gain an understanding of the payroll processes.
- We used our professional judgment to select a sample of 25 employees (18 percent) paid between July 1, 2021 and April 21, 2023. We selected these employees by including those directly involved in the payroll process (CEO, COO, Business Director, HR Manager and administrative assistant), those with unused vacation day payouts, the 10 highest-paid employees, and employees in various positions and including 12-month, 10-month, and hourly employees and employees receiving various stipends. For each of the selected employees, we obtained and reviewed available employment agreements, salary notices, timecards and timecard reports, leave accrual reports and additional supporting documentation for compensation to determine whether employees were accurately compensated. We discussed discrepancies with School officials.
- For five employees, we reviewed Board meeting minutes and Board-adopted budgets to determine whether the Board authorized salaries that were not specified in the employees' multiyear employment agreements.
- We reviewed biweekly payroll registers and approvals to determine whether the CEO approved the processed payroll.
- We reviewed user access rights for the payroll software to determine whether they were appropriate.

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. We encourage the Board to prepare a written corrective action plan (CAP) that addresses the

recommendations in this report and forward it to our office within 90 days. 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. We encourage the Board to make the CAP available 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

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