



Clinton-Essex-Warren- Washington BOCES

Payroll

Report of Examination

Period Covered:

July 1, 2014 — October 31, 2015

2015M-353



Thomas P. DiNapoli

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State of New York Office of the State Comptroller

Division of Local Government and School Accountability

March 2016

Dear Board of Cooperative Educational Services (BOCES) Officials:

A top priority of the Office of the State Comptroller is to help BOCES officials manage BOCES resources efficiently and effectively and, by so doing, provide accountability for tax dollars spent to support BOCES operations. The Comptroller oversees the fiscal affairs of BOCES statewide, as well as BOCES' 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 BOCES operations and Board of Education governance. Audits also can identify strategies to reduce BOCES costs and to strengthen controls intended to safeguard BOCES assets.

Following is a report of our audit of the Clinton-Essex-Warren-Washington BOCES, 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 BOCES 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 Clinton-Essex-Warren-Washington Board of Cooperative Educational Services (BOCES) is an association of 17 component school districts. The BOCES is governed by a 15-member Board of Education (Board) elected by the boards of the component districts. The Board is responsible for the general management and control of the BOCES' financial and educational affairs. The District Superintendent is the BOCES' chief executive officer and is responsible, along with other administrative staff, for the day-to-day management of the BOCES and for regional educational planning and coordination. According to statute, the District Superintendent is an employee of both the appointing BOCES and the New York State Education Department. As such, the District Superintendent also serves as a representative for the New York State Commissioner of Education.

Combined, the component school districts educate approximately 13,600 students in Clinton, Essex, Warren and Washington counties. The BOCES delivers more than 70 educational and administrative services to its 17 component school districts and employs approximately 305 staff members. The BOCES' 2015-16 fiscal year budget of approximately \$35.6 million is funded primarily by charges to school districts for services and State and federal aid. The BOCES' payroll expenditures totaled approximately \$18.2 million during our audit period. The BOCES' payroll/purchasing clerk (payroll clerk) is responsible for processing payrolls.

Objective

The objective of our audit was to evaluate the accuracy of payroll payments. Our audit addressed the following related question:

- Did BOCES accurately pay employees' salaries, wages and separation payments?

Scope and Methodology

We examined BOCES' payroll records for the period July 1, 2014 through October 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
BOCES Officials and
Corrective Action**

The results of our audit and recommendations have been discussed with BOCES officials, and their comments, which appear in Appendix A, have been considered in preparing this report. BOCES officials generally agreed with our recommendations and indicated they planned to initiate corrective action

The Board has the responsibility to initiate corrective action. Pursuant to Section 35 of General Municipal Law and Section 170.12 of the Regulations of the Commissioner of Education, a written corrective action plan (CAP) that addresses the 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 should 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 Board Clerk's office.

Payroll

BOCES officials are responsible for ensuring that the BOCES has adequate procedures to ensure employees are paid salaries, wages and separation payments¹ according to the amounts authorized by the Board. The Board approves amounts to be paid through Board resolutions, collective bargaining agreements (CBAs) and individual employee contracts. A well-designed system over payroll processing can provide assurance that employees are paid in accordance with Board resolutions, contract terms or both, and that transactions are appropriately recorded and authorized by management.

BOCES officials established adequate procedures for processing payroll to ensure employees were accurately paid at their approved salaries or wages but did not establish adequate procedures to ensure employees were accurately paid separation payments. As a result, two employees were overpaid by a combined total of \$16,348 because their separations payments were not accurately calculated in accordance with the terms of their CBAs.

Salaries and Wages – BOCES officials established adequate procedures for processing payroll to ensure employees were accurately paid at their approved salaries or wages. Specifically, the Board approves the hiring of all new employees and the Board Clerk records employee salaries and wages, along with their effective hire dates, in the Board minutes. The Employee Services Department sets up new employees and pay rates in the financial system, which then allows the payroll clerk to activate employees in the financial system to enable them to receive payroll payments.

Designated supervisors review and approve the time records and the payroll clerk processes the payroll based on the approved time records. The BOCES has also appointed a payroll auditor who reviews at least 20 percent of all time sheets that are submitted each pay period to determine if the time sheets are complete, signed by the employees and the employees' supervisors and only contain time worked during the pay period. In addition, the payroll auditor reviews time sheets to determine if the rates of pay and the calculations of gross pay that are recorded on the time sheets by the payroll clerk are accurate.

The District Treasurer (Treasurer) reviews the completed payroll prior to signing the employees' payroll checks. The Treasurer signs the

¹ BOCES often provide separation payments to employees for all or a portion of their earned, but unused leave time when the employees retire or otherwise leave BOCES service.

checks electronically by entering a password into the financial system to generate her signature on the checks. In addition, for employees receiving payroll payments through direct deposit, the direct deposit file is uploaded to the online banking module by the payroll clerk and then is reviewed and released for payment by the Treasurer. The Interim Assistant Superintendent for Management Services (Interim Assistant Superintendent)² reviews and certifies the payrolls prior to payments being made to the employees, which provides a final managerial oversight of the processing of payroll.

We reviewed all payroll payments totaling \$1,664,826³ made to 20 employees during our audit period to determine if the employees' salaries and wages were accurately paid. Except for some minor discrepancies, which we discussed with BOCES officials, the employees' salaries and wages were accurately paid.

Separation Payments – BOCES officials did not establish adequate procedures to ensure employees were accurately paid separation payments. When an employee resigns or retires, the employee is required to notify the Employee Services Department of his or her intent and the date of leaving employment at BOCES. An account clerk/typist in the Employee Services Department will then determine the balances of the employee's leave accruals and provide this information to the Interim Assistant Superintendent. The Interim Assistant Superintendent then calculates the amount of any separation payment that the employee is contractually entitled to receive. A manual personnel/salary adjustment form containing the calculation of any separation payment is then prepared and approved by the Interim Assistant Superintendent⁴ and is sent to the payroll clerk so that she can process the separation payment during the next pay period. Separation payments were not reviewed and approved by an individual independent of the Interim Assistant Superintendent or Human Resource Director prior to the payments being made to the employees to ensure that they were accurately calculated in accordance with contract terms.

We reviewed all separation payments totaling \$123,818 made during our audit period to 24 employees to determine if they were accurately calculated in accordance with the terms of their respective CBAs⁵

² The Assistant Superintendent for Instruction and 21st Century Learning reviewed and certified the payrolls during the 2014-15 fiscal year. The Interim Assistant Superintendent began performing these duties upon his effective date of employment of July 6, 2015.

³ Payroll payments totaling \$1,284,143 during the 2014-15 fiscal year and \$380,683 during the period July 1, 2015 through October 31, 2015.

⁴ The Human Resource Director was responsible for calculating and approving separation payments during the 2014-15 fiscal year.

⁵ Separation payments were not made to any employee during our audit period whose benefits were outlined in an individual employee contract.

and found that the BOCES overpaid two employees a combined total of \$16,348. One of two employees incorrectly received a retirement incentive of \$10,759⁶ because she did not meet the eligibility requirements⁷ established in her CBA. The employee retired from the BOCES at age 60 with 20.82 years of service credit as a Tier 4 member of the New York State and Local Employees' Retirement System (ERS). Based on the employee's years of service credit and tier, the employee's first year of eligibility without a reduction in her retirement benefit would have been when she turned age 62⁸ and, therefore, she did not meet the eligibility requirements to receive a retirement incentive.

The other employee was entitled to a retirement incentive based on her CBA. However, she received an incentive that was \$5,589 more than she was entitled. Specifically, BOCES officials incorrectly calculated the employee's incentive as \$12,497⁹ based on the eligibility requirement of the employee having a minimum of 25 and a maximum of 26 years of service at the BOCES, although the employee only had 23.65 years of service when she retired. Furthermore the calculation was based on 199 unused sick days, which exceeded the maximum amount of 180 unused sick days allowed for purposes of calculating the incentive. Although the employee's years of service did not qualify her for the incentive provided by the BOCES, we found that the employee was eligible for a reduced incentive of \$6,908¹⁰ based on her CBA because the employee retired from the BOCES at age 62 as a Tier 4 member of ERS, which was her first year of eligibility without a reduction in her retirement benefit.

The two employees were overpaid a combined total of \$16,348 for their separation payments because BOCES officials incorrectly interpreted the terms of the employees' CBAs in regards to retirement incentives. Had BOCES established procedures for an independent review and approval of separation payments to ensure that they were calculated in accordance with contract terms, these erroneous overpayments could have been detected and prevented.

⁶ The retirement incentive was calculated as follows: \$22,651 starting salary for the position multiplied by 85.5 unused sick days, divided by 180.

⁷ The employee's CBA outlined that an employee must retire between their first and third year of eligibility from ERS. "Year of eligibility" was defined as the year in which the affected employee's effective date of retirement takes place in relationship to the eligibility requirements under ERS for eligibility to receive a retirement benefit without a reduction.

⁸ The benefits of Tier 4 members retiring prior to age 62 with less than 30 years of service credit are subject to a permanent reduction.

⁹ The retirement incentive was calculated as follows: \$13,816 starting salary for the position divided by 199 unused sick days, multiplied by 180.

¹⁰ The retirement incentive was calculated as follows: 50 percent of the \$13,816 starting salary for the position multiplied by 180 unused sick days, divided by 180.

Recommendations

1. BOCES officials should implement an independent review and approval of separation payments to ensure they are accurately calculated in accordance with the terms of CBAs and individual employee contracts.
2. The Board should review the excessive separation payments addressed in this report and seek recovery of the overpayments.

APPENDIX A

RESPONSE FROM BOCES OFFICIALS

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



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March 4, 2016

Office of the State Comptroller
One Broad Street Plaza
Glens Falls, New York 12801-4396

Audit: **Payroll**
Audit ID#: **2015M-353**

To the Office of the State Comptroller:

This letter is in response to the draft audit report CVES received, associated with the Comptroller's Office examination of CVES payroll records for the period July 1, 2014 through October 31, 2015. The draft report was reviewed and discussed with representatives of the State Comptroller's Office and several CVES administrators and officials at an exit conference.

CVES acknowledges and appreciates the efforts of the State Comptroller's Office, associated with the examination of CVES payroll payments for the period July 1, 2014 through October 31, 2015. CVES agrees with the two recommendations featured in the draft report. Attention was promptly placed at CVES on addressing both recommendations.

As follow-up to this letter, CVES will formulate and submit a formal corrective action plan, within the required time-frame.

Sincerely,

Dr. Mark C. Davey
District Superintendent of Schools

MCD:tj

cc: CVES Board Members
A. Paul Scott, Interim Assistant Superintendent for Management Services
Christine Myers, CVES Treasurer

Board of Cooperative Educational Services for Clinton – Essex – Warren – Washington (CEWW) Counties
CVES / CEWW BOCES is a proud member of the statewide BOCES Network since 1949.

APPENDIX B

AUDIT METHODOLOGY AND STANDARDS

The objective of our audit was to evaluate the accuracy of payroll payments during the period July 1, 2014 through October 31, 2015.

To achieve our audit objective and obtain valid evidence, we performed the following procedures:

- We interviewed BOCES officials and employees and reviewed the BOCES' policy manual, Board resolutions, employment contracts, CBAs and various financial records and reports to gain an understanding of the BOCES' procedures related to payroll and any associated effects of deficiencies in those procedures.
- We reviewed all payroll payments made to 20 employees during our audit period to determine if the employees' salaries and wages were accurately paid. Our sample consisted of first selecting the employee who processed payroll during our audit period. We then selected 19 other employees who received payroll payments during our audit period whose salaries and wages were outlined by the BOCES' six CBAs and individual employee contracts, for a total of 20 employees. Specifically, we selected five employees from the teachers unit, four employees from the BOCES' 12-month support unit, two employees from the administrative unit, two employees from the managerial unit, two employees from the Civil Service Employees Association, two employees from the confidential unit and two employees with individual employee contracts.
- We also reviewed all separation payments that were made during our audit period to 24 employees to determine if they were accurately calculated in accordance with the terms of their respective CBAs.

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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