



Scio Central School District Payroll

Report of Examination

Period Covered:

July 1, 2015 – December 22, 2016

2017M-10



Thomas P. DiNapoli

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State of New York Office of the State Comptroller

Division of Local Government and School Accountability

March 2017

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 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 Scio Central 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 recommendation 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 Scio Central School District (District) is located in the Towns of Alma, Amity, Andover, Bolivar, Friendship, Scio, Ward, Wellsville and Wirt in Allegany County. The District is governed by an elected seven-member Board of Education (Board), which is responsible for the general management and control of the District's financial and educational affairs.

The Superintendent of Schools (Superintendent) is the chief executive officer and is responsible, along with other administrative staff, for the District's day-to-day management under the Board's direction. While the Superintendent is responsible for the oversight of the payroll function, the District contracts with the Cattaraugus-Allegany-Erie-Wyoming Board of Cooperative Educational Services (BOCES) for the services of a school business manager (manager). The manager is directly responsible for all phases of District business activity, including payroll, and reports directly to the Superintendent. The Superintendent performs payroll certifications while the District's payroll clerk, who is also a contracted BOCES employee, is responsible for the day-to-day payroll functions and reports directly to the manager.

The District operates one school with approximately 320 students and 90 employees. The District's budgeted appropriations for the 2016-17 fiscal year are approximately \$10.3 million, funded primarily with State aid, real property taxes and grants. Payroll payments totaled approximately \$3.6 million, or 40 percent, of general fund expenditures in 2015-16.

Objective

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

- Were employee salaries, wages and separation payments accurately paid?

Scope and Methodology

We examined the District's payroll records for the period July 1, 2015 through December 22, 2016.

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 recommendation have been discussed with District officials, and their comments, which appear in Appendix A, have been considered in preparing this report. District officials agreed with our findings and recommendation 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, Section 2116-a (3)(c) of the 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 recommendation 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

An effective payroll system provides assurance that payroll transactions are appropriately supported, authorized by management and paid accurately. The Board should adopt adequate policies and District officials should develop written procedures to ensure employees are accurately paid their respective salaries and wages. The Board should approve the amounts to be paid to District employees through collective bargaining agreements (CBAs), individual employee contracts and Board-established rates. Additionally, school districts often provide separation payments to employees for all or a portion of their earned but unused leave time when they leave school district employment. The Board is responsible for ensuring departing employees are paid only the amounts to which they are entitled.

While the Board has not adopted written policies and District officials have not developed written procedures over the payroll function, we found no significant exceptions with the accuracy of the payment of salaries, wages or separation payments.

The District Clerk routinely records the Board's approval of individual contracts, CBAs, employee hirings, salaries, wage rates, resignations and retirements, along with the effective dates of the activities, in the minutes of the Board's meetings. The payroll clerk then enters the Board-approved information into the human resources management system, which is used to make the respective salary, wage or separation payments. Additionally, the Superintendent reviews and certifies the regular payrolls.

We examined the records for 15 employees during three payroll periods totaling approximately \$82,000 and found that, other than a few minor exceptions which we discussed with District officials, regular salary payments were in accordance with Board approvals, correctly calculated, properly supported and certified by the Superintendent.

District employees are entitled to accrue and use leave time and, in some cases, convert unused leave to cash payments upon leaving District employment in accordance with individual contracts, CBAs or Board resolutions. In certain instances, before leaving District employment, employees must notify the District in writing of their intent to leave and reason for leaving, such as retirement, within specified time frames established in the respective individual contracts or CBAs. This information and the Board's responses are documented in the Board minutes.

The District Clerk maintains files for each employee's contracted earnings and separations, which include correspondence, accrual balances and applicable contract language. The payroll clerk calculates the separation payment for unused leave for an employee based on the accrued leave balance, and the authorized rate of pay and this calculation is reviewed and approved by the manager. We reviewed all three separation payments totaling \$13,521 paid during our audit period. We found that except for one minor instance, these payments were made in accordance with Board authorizations, accurately calculated and included adequate supporting documentation.

While the payroll system is operating effectively and our testing did not identify exceptions, the Board and District officials should document the system in writing and adopt a payroll policy to ensure the system stays in operation, as staff members or duties change over time.

Recommendation

The Board and District officials should:

1. Develop and adopt written payroll policies and procedures.

APPENDIX A

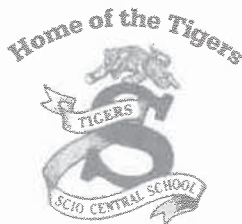
RESPONSE FROM DISTRICT OFFICIALS

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

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Superintendent of Schools

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Business Manager

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March 10, 2017

Chief Examiner
Office of the New York State Comptroller
295 Main Street – Room 1050
Buffalo, New York 14203

Dear Sir:

Please accept this letter as the official response from the Scio Central School District regarding the Draft Audit Report on “Payroll” conducted by your office. This letter will present the District’s response to the recommendation that appears in the audit report.

District Response – It is our opinion that the audit performed by the New York State Comptroller’s Office was both fair and professionally executed. Though an audit of this sort places a very real burden on District personnel, the auditor on site was positive, courteous and professional in every way. He was thorough and we agree with the auditor’s sole recommendation.

We would like to thank your office for the recommendation and the beneficial approach in which the audit was carried out. This audit has provided the District with the opportunity to enhance the internal financial controls.

Sincerely,

A handwritten signature in black ink that reads "G. Hardy".

Gregory L. Hardy
Superintendent

APPENDIX B

AUDIT METHODOLOGY AND STANDARDS

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

- We interviewed and observed District officials and employees to understand the procedures used to process regular payroll and separation payments.
- We reviewed Board minutes for evidence of approval of individual employee contracts, CBAs, individual salaries, rates of pay, resignations, retirements and separation payments.
- We reviewed all payroll records of 10 randomly selected employees and five additional employees judgmentally selected, based on their involvement with, and proximity to, the payroll process. We randomly selected three payroll periods from July 1, 2015 through October 27, 2016 and reviewed total contracted compensation paid for the 2015-16 fiscal year to ensure it was accurate, supported and approved by the Board. We also reviewed the payroll schedule for the 2016-17 fiscal year to determine if scheduled payments for these employees were also accurate, supported and approved by the Board. We traced the amounts paid to individual contracts, CBAs, salary notices and Board resolutions to determine whether these employees' pay was properly calculated and accurately paid. All random samples were selected using a random sample generator.
- We reviewed all separation payments paid during our audit period to determine whether they were accurate.

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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