



Crown Point Central School District Internal Controls Over Payroll

Report of Examination

Period Covered:

July 1, 2011 — December 31, 2012

2013M-100



Thomas P. DiNapoli

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State of New York Office of the State Comptroller

Division of Local Government and School Accountability

June 2013

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 district 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 Crown Point Central School District, entitled Internal Controls Over 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 General Municipal Law.

This audit's results 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 Crown Point Central School District (District) is located in the Towns of Moriah, Ticonderoga, and Crown Point in Essex County. The District is governed by the Board of Education (Board) which comprises seven elected members. The Board is responsible for the general management and control of the District's financial and educational affairs. The Superintendent of Schools (Superintendent) is the District's chief executive officer and is responsible, along with other administrative staff, for the day-to-day management of the District under the direction of the Board.

The District has one school in operation with 287 students and 63 full- and part-time employees. The District's budgeted appropriations for the 2012-13 fiscal year were approximately \$6.1 million, which were funded primarily with State aid, real property taxes, and grants. Payroll and associated employee benefit costs represent a significant portion of the District's annual expenditures. For the 2011-12 fiscal year, these costs totaled approximately \$3.8 million or about 67 percent of the District's total general fund expenditures of \$5.7 million.

Objective

The objective of our audit was to determine if the District had established effective internal controls over payroll. Our audit addressed the following related question:

- Are internal controls over payroll appropriately designed and operating effectively to adequately safeguard District assets?

Scope and Methodology

Our overall goal was to assess the adequacy of the internal controls put in place by officials to safeguard District assets. To accomplish this, we performed an initial assessment of the internal controls so that we could design our audit to focus on those areas most at risk. Our initial assessment included evaluations of the following areas: financial oversight, cash receipts and disbursements, purchasing, and payroll and personal services. Based on that evaluation, we determined that controls appeared to be adequate and limited risk existed in most of the financial areas we reviewed. We did determine that risk existed in the payroll area and, therefore, we examined internal controls over payroll for the period July 1, 2011 to December 31, 2012.

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 is included in Appendix B of this report.

**Comments of
District Officials**

The results of our audit have been discussed with District officials and their comments, which appear in Appendix A, have been considered in preparing this report.

Payroll

The Board is responsible for designing a system of internal controls over the District's payroll process. Internal controls over payroll consist of written Board authorization for salaries, wages, and fringe benefits. District-wide policies, collective bargaining agreements, and/or individual employee contracts must stipulate each employee's entitlement to leave accruals and use of leave time. An effective system of internal controls can provide assurance that employees are paid and provided benefits in accordance with contract provisions, and that transactions are appropriately recorded and authorized by management. A good system of internal controls over payroll would also include both effective managerial oversight and a proper segregation of duties. Where practicable, duties should be separated so that one employee does not control all phases of the payroll process. When complete segregation of duties is not possible, active supervision and oversight become even more important components of an effective internal control system. Failure to establish and adhere to a sound system of internal controls increases the risk that fraud, abuse, or errors may occur and go undetected and uncorrected.

As with all school districts, payroll and fringe benefits represent a large portion of the District's annual budget. Salaries and wages, including overtime and employee benefit costs,¹ totaled approximately \$3.8 million, or 67 percent of the District's general fund expenditures for the 2011-12 fiscal year. The significant costs involved highlight the importance of good internal controls in this area.

We found the District established adequate internal controls over payroll. District officials implemented specific procedures to ensure that individuals reported and paid on the payrolls were paid at their approved salaries and wages, and that they received only the benefits to which they were entitled.

We also determined that the various control procedures over the payroll process that the District had established included adequate supervision and oversight. Specifically, the Board approves all new employees and accepts all resignations and retirements before any changes to payroll are made. The District Clerk records all employee salaries, wages, resignations, and retirements with their effective dates, in the Board meeting minutes. The District Treasurer enters all new employees and their salaries into the payroll system and inactivates employees who resign or retire. The Deputy Treasurer

¹ \$2,045,513 in salaries and \$1,741,322 in employee benefits such as healthcare and pension costs

enters all time sheet information² into the payroll system and the District Treasurer reviews this information for accuracy. Department heads review and approve all timesheets and leave requests and the Superintendent reviews all time sheets, approves all leave requests, and certifies payrolls.

We tested District records to determine if officers and employees were paid and received benefits according to their respective employment or collective bargaining agreements. We examined the payroll records of 20 employees with gross pay totaling \$31,099 to ensure the employees were paid at their approved pay rates and that a designated officer certified the payrolls. We also reviewed a judgmental sample of 10 employees with the highest annual gross salaries for the 2011-12 fiscal year, which collectively totaled \$738,196, to ensure the salaries were paid in accordance with Board-approved contracts. In addition, we reviewed four employees with the highest balloon payments³ made in the 2011-12 fiscal year, which collectively totaled \$50,848, and verified the balloon payments were accurately calculated. Lastly, we examined 10 time sheets and determined the time sheets were approved by the respective department heads and were calculated correctly. We found no exceptions with our testing.

Finally, we examined 20 leave request forms to ensure the correct leave type⁴ and amounts were deducted from the employees' leave accruals. For the same employees, we also reviewed the leave accruals earned for the 2012-13 school year to determine if the correct days were credited. In each instance, District officials properly approved, recorded, and credited leave accruals.

We found that the District's controls over payroll were appropriately designed and operating effectively to safeguard District assets.

² This would include all hours worked (e.g., regular, extra, and overtime) for all District staff.

³ A balloon payment is a lump sum payment an employee receives at the end of the school year in exchange for receiving a reduced amount of their annual salary in their bi-weekly paychecks throughout the school year.

⁴ Vacation, sick, or personal leave

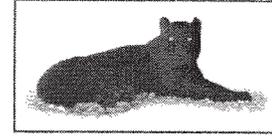
APPENDIX A

RESPONSE FROM DISTRICT OFFICIALS

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

Crown Point Central School

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June 10, 2013

[REDACTED]
NYS Office of the State Comptroller
Division of Local Government and School Accountability
One Broad Street Plaza
Glens Falls, NY 12801

Dear [REDACTED]

I am writing to respond to our recent audit of the Crown Point Central School, entitled Internal Controls Over Payroll. As your report stated, the objective of the audit was to determine if the District had established effective internal controls over payroll.

The audit found that the District established adequate internal controls over payroll. The audit determined that the various control procedures over the payroll process that the District had established included adequate supervision and oversight. Tests of District records to determine if officers and employees were paid and received benefits according to their respective employment or collective bargaining agreements found no exceptions. Next, the audit report stated that in each instance District officials properly approved, recorded and credited leave accruals. In addition, the audit report found that the District's controls over payroll were appropriately designed and operating effectively to safeguard District assets.

We are in agreement that your report is accurate and complete. We are pleased to also agree that there are no negative findings in your audit report and a Corrective Action Plan is not necessary. We appreciate the opportunity your audit provides for the Crown Point Central School to ensure that our accounting systems have proper internal controls.

Sincerely,

CROWN POINT CENTRAL SCHOOL

Shari L. Brannock
Superintendent of Schools

APPENDIX B

AUDIT METHODOLOGY AND STANDARDS

Our overall goal was to assess the adequacy of the internal controls put in place by District officials to safeguard District assets. To accomplish this, we performed an initial assessment of the internal controls so that we could design our audit to focus on those areas most at risk. Our initial assessment included evaluations of the following areas: financial oversight, cash receipts and disbursements, purchasing, and payroll and personal services.

During the initial assessment, we interviewed appropriate District officials, performed limited tests of transactions, and reviewed pertinent documents, such as District policies and procedures manuals, Board minutes, and financial records and reports. In addition, we obtained information directly from the computerized financial databases and then analyzed it electronically using computer-assisted techniques. This approach provided us with additional information about the District's financial transactions, as recorded in its databases. Further, we reviewed the District's internal controls and procedures over the computerized financial databases to help ensure that the information produced by such systems was reliable.

After reviewing the information gathered during our initial assessment, we determined where weaknesses existed, and evaluated those weaknesses for the risk of potential fraud, theft, and/or professional misconduct. Based on that evaluation, we determined that controls appeared to be adequate and limited risk existed in most of the financial areas we reviewed. We then decided on the reported objective and scope by selecting for audit the area most at risk. We selected payroll and personnel services for further audit testing.

During the audit, we examined the payroll records and reports for the period July 1, 2011, to December 31, 2012. To accomplish the objective of the audit and obtain valid audit evidence, our procedures included the following steps:

- We interviewed and observed appropriate District officials and employees to learn about the procedures used to process payrolls.
- We reviewed Board meeting minutes.
- We reviewed collective bargaining agreements and individual employee contracts for our audit period to ensure salary payments were properly authorized and in accordance with the agreements.
- We reviewed all pertinent payroll records.
- We tested 10 employees with the highest grossing salaries for the 2011-12 fiscal year and traced amounts paid to employee salary notices and union contracts to determine if their gross salaries were paid in accordance with Board-approved contracts.

- We judgmentally selected four employees with the highest balloon payments for the fiscal year 2011-12 and traced amounts paid to employee salary notices and union contracts to determine if the balloon payments were calculated correctly.
- We randomly selected one payroll period from fiscal year 2011-12 (June 21, 2012) and one payroll period from fiscal year 2012-13 (September 26, 2012). For each payroll, we randomly selected 10 employees to determine if their bi-weekly salaries were accurate, calculated correctly, and paid in accordance with Board-approved rates.
- We judgmentally selected the first 10 time sheets in the June 20, 2012, and the September 26, 2012, payroll files to verify that the time sheets were approved by the appropriate department supervisor and were accurately calculated.
- We randomly selected 10 employees' leave request forms which were signed by the employees, the appropriate supervisors, and the Superintendent, indicating leave time was taken, and traced them back to the leave accrual report maintained by the District Treasurer to verify the leave records for accuracy. For the same employees, we also reviewed the leave accruals they earned for the 2012-13 fiscal year and traced them back to the Board-approved contracts to determine if the correct days were credited.

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 objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

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