



Arkport Central School District

Payroll

Report of Examination

Period Covered:

July 1, 2014 – August 1, 2016

2016M-338



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State of New York Office of the State Comptroller

Division of Local Government and School Accountability

November 2016

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 Arkport 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 recommendations 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 Arkport Central School District (District) is located in the Towns of Almond, Birdsall and Burns in Allegany County and the Towns of Fremont, Hornellsville and Dansville in Steuben County. The District is governed by an elected five-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. The Superintendent is also responsible for the oversight of the payroll function. The Superintendent performs payroll certifications while the District's payroll clerk, who reports to the Superintendent, is responsible for the day-to-day payroll functions.

The District operates one school with approximately 480 students and 175 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 \$4.3 million, or 45 percent, of general fund expenditures in 2014-15.

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, 2014 through August 1, 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 recommendations have been discussed with District officials, and their comments, which appear in Appendix A, have been considered in preparing this report. District officials generally agreed with our recommendations and indicated they plan 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 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 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 approves 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 payments to employees for all or a portion of their earned but unused leave time when they separate from 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 activity, 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 29 employees during four payroll periods 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.

Additionally, employees are entitled to accrue and use leave time and also, in some cases, convert unused leave to cash payments upon separation in accordance with individual contracts, CBAs or Board resolution. Prior to separation, employees must notify the District in writing of their intent to leave and the reason for their separation, such as retirement, within specified time frames established in their respective individual contract or CBA. This information and the Board's response are both documented in the Board minutes.

The District Clerk maintains files for each of the employee separations which includes 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. No subsequent review is conducted of the District Clerk's calculation of unused leave or the payroll clerk's calculation of the separation payment. We reviewed seven separation payments totaling \$232,950 and found that they were in accordance with Board authorizations, accurately calculated and included adequate supporting documentation.

While our testing did not identify exceptions, opportunities exist for the Board and District officials to improve internal controls over the payroll process. This would provide assurance that errors and irregularities do not occur and remain undetected and uncorrected.

Recommendations

1. The Board and District officials should develop and adopt written payroll policies and procedures.
2. The Superintendent should review the calculations for separation payments prior to the payments being made.

APPENDIX A

RESPONSE FROM DISTRICT OFFICIALS

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

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November 4, 2016

Office of the New York State Comptroller
Jeffrey D. Mazula, Chief Examiner
Buffalo Regional Office
295 Main Street, Suite 1032
Buffalo, New York 14203

Dear Mr. Mazula,

Please accept this letter as Arkport Central School District's official audit response for audit 2016M-338.

The audit referenced above, covered payroll and separation payments for the period of July 1, 2015, to August 1, 2016. And while the audit found "no significant exceptions with the accuracy of the payment of salaries, wages or separation payments", the following recommendations were made to improve the internal controls of the payroll process.

1. The Board and District officials should develop and adopt written payroll policies and procedures.
2. The Superintendent should review the calculations for separation payments prior to payments being made.

The Arkport Central School District agrees with both the findings of, no exceptions with the accuracy of payment and the recommendations for improvement of internal controls. The current methods of payroll and payment controls will be formalized and memorialized in both BOE policies and administrative policies to be adopted by June 30, 2017. The specific policies and procedures we plan to implement will be outlined in our corrective action plan.

On behalf of the Arkport Central School District,

Jesse Harper
Superintendent of Schools

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 pertinent payroll records of 24 randomly selected employees and five additional employees judgmentally selected based on their involvement with, and access to, the payroll process. We then randomly selected three payroll periods from July 1, 2014 through August 31, 2015 and judgmentally selected the last payroll of 2014-15 as it was the largest dollar payroll of the year. We traced the amounts paid to individual contracts, CBAs, salary notices and Board resolutions to determine if their pay was calculated properly and paid accurately. All random samples were selected using a random number generator.
- We reviewed all seven separation payments during our audit period totaling \$232,950 and compared the payment calculations to the applicable contract provisions, authorized rates of pay and employee attendance records to determine if they were paid accurately.

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.

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