



Chazy Union Free School District

Payroll

Report of Examination

Period Covered:

July 1, 2014 – July 31, 2015

2015M-252



Thomas P. DiNapoli

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State of New York Office of the State Comptroller

Division of Local Government and School Accountability

January 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 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 Chazy Union Free 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 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 Chazy Union Free School District (District) is located in the Town of Chazy in Clinton County. The District is governed by the Board of Education (Board) which is composed of 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 office and is responsible, along with other administrative staff, for the District's day-to-day management under the Board's direction.

The District operates one school with approximately 470 students and 95 employees. The District's budgeted appropriations for the 2015-16 fiscal year were \$10.2 million, which were funded primarily with State aid, real property taxes and grants.

Objective

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

- Did the District accurately pay employees' salaries and wages?

Scope and Methodology

We examined the District's procedures related to payroll for the period July 1, 2014 through July 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 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. District officials agreed with our report.

Payroll

The Board is responsible for ensuring that the District has adequate procedures to ensure employees are paid salaries and wages according to the amounts authorized by the Board. The Board approves amounts to be paid through collective bargaining agreements and individual employee contracts. An effective payroll system can provide assurance that employees are paid in accordance with contract provisions and that transactions are appropriately recorded and authorized by management.

As with all school districts, payroll represents a large portion of the District's annual budget. Salaries and wages including overtime totaled approximately \$3.9 million,¹ or 40 percent of the District's general fund expenditures for the 2014-15 fiscal year. The significant costs involved with payroll highlight the need for adequate procedures in this area.

We found that District officials established adequate procedures for payroll to ensure employees were accurately paid at their approved salaries or wages. We also determined that the various procedures for the District's payroll process provided adequate supervision and oversight.

The Board approves the hiring of 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, along with their effective dates, in the Board minutes. The District's Business Manager enters all new District employee information and salaries into the computerized payroll system and inactivates payments to employees who resign or retire.

Department heads review and approve all timesheets and leave requests and the Business Manager enters all timesheet information into the payroll system and processes the payroll based on approved source documents, such as timesheets and time cards. The Superintendent then reviews and certifies the payrolls prior to payments being made to the employees.

¹ The \$3,907,681 in salaries and wages does not include employee benefits, such as healthcare and pension costs.

After the payroll is certified, the Business Manager initiates the appropriate Automated Clearing House (ACH) file² and bank transfers, and the Treasurer reviews and releases the bank transfers and the payroll direct deposit ACH file. The Treasurer also prints payroll checks for employees who have elected to receive all or part of their net pay by check.

We reviewed District records to determine if the District paid employees according to their respective employment or collective bargaining agreements. We examined the records for 20 employees (15 randomly selected and five judgmentally selected)³ during four randomly selected payroll periods⁴ to ensure that they were paid at their approved rates and that the Superintendent reviewed and certified the payrolls. We found that all payments reviewed were supported by District employment agreements, correctly calculated and properly certified by the Superintendent.

In addition, we reviewed all three separation payments that occurred during our scope period, which collectively totaled \$155,488, and verified whether the payments were accurately calculated based on collective bargaining agreements and individual employee contracts. We found that all payments reviewed were supported by District employment agreements and leave records and were correctly calculated.

Establishing and adhering to a good system for processing and verifying payroll payments ensures the employees will be accurately paid salaries and wages to which they are entitled. Given that payroll expenditures are a large portion of the District's budget, this is an important control cycle. We commend District officials for designing and implementing a good system of controls over payroll costs.

² The Automated Clearing House is an electronic network used to process large volumes of electronic payments between banks.

³ We chose these five individuals based on their close proximity to, and involvement with, the payroll process.

⁴ The four randomly selected payrolls represented \$146,412 in gross pay for the 20 employees in our sample.

APPENDIX A

RESPONSE FROM DISTRICT OFFICIALS

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

CHAZY CENTRAL RURAL SCHOOL

CHAZY, NEW YORK 12921

PHONE (518) 846 - 7135



January 12, 2016

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

Dear Jeff Leonard,

This letter will serve as the District's formal response to the Report of Examination 2015M-252. We will have no corrective action plan attached because there were no findings.

We instead would like to take this opportunity to thank the examiners for all of their time and effort. It was a very busy time of year here at the Chazy Central Rural School and they made this process very easy. They were extremely professional, courteous and understanding. They gave great feedback and were very easy to talk to. They took the time to speak with several key employees and myself, the Board of Education President. The experience of an audit can be overwhelming, but I have to say that this audit experience was very organized and not overwhelming in any way.

We take pride in what we do here at the Chazy Central Rural School and it was nice to hear that our work has paid off with a "clean" audit. We will, as the Board of Education, keep tight controls over the finances, accountability and internal controls. Thank you again for being a resource that we can use now and in the future.

On behalf of the ~~Chazy~~ Central Rural School,

Joey Trombley
Board of Education President

APPENDIX B

AUDIT METHODOLOGY AND STANDARDS

The objective of our audit was to evaluate the accuracy of the District's payroll payments for the period July 1, 2014 through July 31, 2015.

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

- We interviewed and observed District officials and employees to learn about the procedures used to process payrolls.
- We reviewed the minutes of the Board's proceedings for our audit period.
- We reviewed collective bargaining agreements and individual employee contracts in effect during our audit period to ensure salary payments were properly authorized and in accordance with the agreements.
- We reviewed all pertinent payroll records.
- We examined the payroll and personnel records of 15 employees who were randomly selected using a random number generator.
- We examined the payroll and personnel records of five employees. We selected these five individuals based on their close proximity to, and involvement with, the payroll process.
- We reviewed four payroll periods that we randomly selected from July 1, 2014 through July 31, 2015 using a random number generator.
- We performed tests of procedures and payments in the payroll function to determine whether the District's internal controls were adequate.
- We reviewed documents pertaining to our sample of 20 employees to ensure they were legitimate employees.
- We reviewed the payroll account bank reconciliations to verify whether the reconciliations were completed in a timely manner and reviewed by someone who was independent of the payroll function. We also determined whether discrepancies identified were investigated and resolved in a timely manner.

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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