



Ogdensburg City School District Payroll

Report of Examination

Period Covered:

July 1, 2014 – March 31, 2016

2016M-250



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State of New York Office of the State Comptroller

Division of Local Government and School Accountability

September 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 Ogdensburg City 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 Ogdensburg City School District (District) is located in the City of Ogdensburg and the Towns of Lisbon and Oswegatchie in St. Lawrence County. The District is governed by the Board of Education (Board), which is composed of nine 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 District's day-to-day management under the Board's direction.

The District operates three schools with approximately 1,800 students and 400 employees. The District's budgeted appropriations for the 2015-16 fiscal year were \$41.9 million, which were funded primarily with State aid and real property taxes. The District's 2015-16 budgeted payroll appropriations totaled approximately \$12.3 million.

The St. Lawrence-Lewis Board of Cooperative Educational Services (BOCES) Shared Business Office performs the District's business operations. A BOCES employee is the District's Assistant Business Manager,¹ and a BOCES clerk processes the District's payroll transactions. The Board appointed the Superintendent as Treasurer and the Assistant Business Manager as Deputy Treasurer. The District's senior typist is responsible for the human resources function. The Board, at its annual reorganizational meeting, authorizes the Superintendent to certify payroll.

Objective

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

- Did District officials establish adequate procedures to ensure employees' salaries and wages were accurately paid?

Scope and Methodology

We examined the District's payroll procedures for the period July 1, 2014 through March 31, 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

¹ The current Assistant Business Manager is retiring and the replacement is working two days a week at the District.

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 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 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

District officials are responsible for establishing adequate procedures to ensure employees are paid salaries and wages authorized by the Board. A well-designed system over payroll processing can provide assurance that employees are paid in accordance with Board resolutions and contract terms and that transactions are appropriately recorded and authorized by management. It is important that one individual is not responsible for the entire payroll processing function. If the District's limited staff precludes establishing adequate segregation of duties, at a minimum, the District should consider implementing certain compensating controls. These controls could include having someone independent of the payroll preparation process review payroll change reports and compare payroll source documents to payroll registers to ensure they are based on actual hours or days worked and Board-authorized hourly rates or annual salaries.

The Board approves amounts to be paid through Board resolutions, collective bargaining agreements (CBAs) and individual employee contracts. Each year, the payroll clerk prepares salary lists showing all teachers and full-time employees and their new salaries. The District's senior typist reviews the salary lists for accuracy and signs off on them. However, there is no process to verify that the salaries reflected on the lists agree with the salaries recorded in the computerized payroll system.

In addition, the payroll clerk controls multiple aspects of the payroll process with limited oversight. While the senior typist is responsible for adding new employees to the payroll system and inputting their initial salary or wage rate, the payroll clerk also has the ability to add new employees to the system. The payroll clerk is responsible for making any subsequent changes to employees' salaries or wages, collecting employees' time records, recording the hours worked or salaries to be paid, and directly controlling the paychecks² and direct deposit statements prior to sending them to the schools for distribution.

The District had instituted a compensating control of having the Superintendent review and certify the final payroll registers. However, the Superintendent's reviews are not extensive enough. The Superintendent does not trace payroll amounts to source documents

² The Assistant Business Manager (Deputy Treasurer) enters his password into the computer system to authorize payroll checks to be printed with his signature on the checks. The payroll clerk retrieves the checks from the printer and puts them in envelopes.

(i.e., time records) to ensure that payments were based on the actual hours or days worked. In addition, he did not verify, at least on a sample basis, that payments were based on Board-authorized hourly rates or annual salaries.

The District's payroll system has the capability to generate payroll change reports. However, the Superintendent and Assistant Business Manager do not routinely prepare or review these reports to aid in their oversight of the payroll clerk's work. By reviewing payroll change reports, they could identify payroll changes – such as employees added to the payroll or salary increases – and review the supporting documentation to determine whether changes are appropriate and properly authorized.

We reviewed salary payments totaling \$1.2 million for 20 employees³ made during our audit period to determine whether the amounts paid agreed with their employment contracts and whether additional payments (e.g., overtime, vacation day buy back) were supported by time records or other documentation. In addition, we selected 30 employees from payroll records and reviewed independent supporting documentation maintained outside of the BOCES Shared Business Office to determine whether each individual was, or had been, a bona fide employee. As part of this review, we determined whether the Board approved the hiring of the employees and whether they were paid at the rate approved by Board resolution or contract.

Although we did not find any discrepancies, the lack of adequate oversight of the payroll clerk's work increases the risk that errors or irregularities could occur and remain undetected.

Recommendation

1. District officials should segregate the payroll clerk's duties so that the clerk does not control all aspects of payroll transactions. If it is not feasible to adequately segregate these duties, District officials should establish appropriate compensating controls. Such controls include having someone independent of the payroll process review salary and wages entered into the payroll system and payroll change reports. An independent employee also should compare payroll registers to source documents.

³ See Appendix B for our sampling methodology.

APPENDIX A

RESPONSE FROM DISTRICT OFFICIALS

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

Ogdensburg City School District

1100 State Street
Ogdensburg NY 13669



SUPERINTENDENT OF SCHOOLS

Timothy M. Vernsey
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August 10, 2016

Office of the State Comptroller
Division of Local Government and School Accountability
Syracuse Regional Office
State Office Building, Room 409
333 E. Washington Street
Syracuse, New York 13202-1428
Attention: Rebecca Wilcox, Chief Examiner

Dear Ms. Wilcox,

The Ogdensburg City School District Audit Response to The Office of the State Comptroller Audit will also serve as our Corrective Action Plan.

Response to Office of the State Comptroller Audit Report:

We have reviewed the Office of the State Comptroller Audit Report Findings and Recommendations and are in agreement that we should improve payroll controls.

- The Senior Typist will now review the employee list and wages from a computerized report to ensure accuracy.
- The Payroll Clerks rights to add new employees will be removed /disabled.
- The Superintendent will now have available to him a copy of the source documents that are supplied to the Payroll Clerk to ensure that the check register entries are accurate.
- The Payroll Change Report will be run after each payroll and be sent with the Check Register to the Superintendent where changes can be verified.

Audit Recommendation:

1. District officials should segregate the payroll clerk's duties so that the clerk does not control all aspects of payroll transactions. If it is not feasible to adequately segregate these duties, District officials should establish appropriate compensating controls. Such controls include having someone independent of the payroll process review salary and wages entered into the payroll system and payroll change reports. An independent employee also should compare payroll registers to source documents.

Implementation Plan of Action:

As outlined in our Response to the Office of the State Comptroller Audit above, we are implementing new procedures to address all findings and recommendations.



Implementation Date:

- The Senior Typist review of the employee list and wages from a computerized report will be started in September 2016.
- The Payroll Clerks rights to add new employees will be removed /disabled in September 2016.
- Copies of the source documents that are supplied to the Payroll Clerk will be made available starting in September 2016 to ensure that check register entries are accurate.
- The Payroll Change Report that will be run after each payroll and sent with the Check Register to the Superintendent where changes to wages can be verified will also start in September 2016.

Person Responsible for Implementation:

The Superintendent, Business Manager and the St. Lawrence-Lewis BOCES Director of Financial Affairs, will see that all changes are implemented and procedures are being followed.

Sincerely,

Timothy M. Vernsey
Superintendent of Schools

Cc: Ogdensburg City School District Board of Education

APPENDIX B

AUDIT METHODOLOGY AND STANDARDS

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

- We interviewed District officials and reviewed Board minutes and the District policy manual to determine and document the internal controls over the payroll process.
- We examined user permissions provided by BOCES to gain an understanding of each user's access permissions for the District's accounting software program's payroll modules.
- We reviewed salary payments to 20 employees, including 11 employees who we judgmentally selected due to various risk factors and nine other employees who worked in nine different job titles. We verified that the amounts paid to the employees in our sample were paid according to Board resolutions and contracts.
- We randomly sampled 30 employees from three categories (five new hires, 10 substitutes and 15 all other).
 - We examined the supporting documentation in their personnel files and determined that the Board's approval of the non-substitute employees' appointments were documented in the minutes of the Board's proceedings.
 - Substitute employees are not approved by the Board. We reviewed substitute employees' folders, and they included signed recommended-for-hire checklists.
 - We also verified that the employees were paid according to Board resolution and contract.
- We reviewed the Superintendent's payroll certification process.

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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