



Potsdam Central School District Payroll

Report of Examination

Period Covered:

July 1, 2014 – February 29, 2016

2016M-161



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State of New York Office of the State Comptroller

Division of Local Government and School Accountability

July 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 Potsdam 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 are a resource 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 Potsdam Central School District is located in the Towns of Canton, Parishville, Pierrepont, Potsdam and Stockholm 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 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 1,200 students and 360 full- and part-time employees. The District's general fund budgeted expenditures for the 2015-16 were about \$30 million, funded primarily with State aid, real property taxes and grants. Appropriations for salaries and wages totaled about \$9.7 million, or about 32 percent of the budget.

Objective

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

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

Scope and Methodology

We examined the salary and wages paid to District employees for the period July 1, 2014 through February 29, 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

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

District officials are responsible for ensuring the District has adequate procedures in place to ensure employees are paid salaries and wages according to the amounts authorized by the Board. The Board approves employee compensation through collective bargaining agreements (CBAs), individual employee contracts and Board resolutions. A well-designed system for payroll processing can provide assurance that employees are paid in accordance with Board resolutions and contract terms and that payroll transactions are authorized by management.

District officials established adequate procedures to ensure employees were paid their approved salaries or wages. The Board approves the hiring of all new employees and establishes salaries and wages in the provisions of negotiated CBAs or individual contracts. Other compensation rates that are not addressed in the agreements (e.g., additional duties or appointed positions such as coaches and substitutes) are determined at Board meetings and documented in the minutes.

The Superintendent's secretary enters new employees and the payroll clerk enters the pay rates in the District's computerized accounting system. The Business Manager reviews the rates for accuracy. Employees sign salary notices acknowledging they have reviewed the base compensation and any other approved pay rates for additional duties and appointments.

Administrators and supervisors review and sign employee timesheets, indicate approval for any overtime and submit the payroll documents to the payroll clerk. The payroll clerk prepares the payrolls following formal written procedures, which provide guidance on the various steps in the process. The payroll clerk generates a biweekly payroll register and payroll change report, which provide comprehensive information of pay and withholdings, reports of deductions, direct deposits and any changes made, such as changes in pay rates. These reports are reviewed by the Business Manager and the Superintendent. The Superintendent reviews and certifies the payrolls, which provides a final managerial oversight to ensure the accuracy of the payroll payments.

After the payroll clerk has completed processing of the payroll, she notifies the Treasurer that the payroll checks are ready to be generated and provides her with a check register and payroll distribution report. The Treasurer verifies that the check register and distribution report

totals agree, makes the transfers to the payroll account and prints the checks, which she electronically signs. The Treasurer then submits an electronic file of printed checks to the District's bank. As a deterrent to check fraud, the District's bank uses positive pay to match the checks authorized by the District with those presented for payment. Checks presented for payment that do not match those authorized by the Treasurer will not be paid and the District is notified that an unauthorized check was presented for payment.

After the Treasurer has made the transfer to the payroll account and printed the payroll checks, the payroll clerk initiates the direct deposit to pay employees. The payroll clerk maintains all computer printouts and other documentation related to each payroll. On a monthly basis, the Treasurer reconciles the payroll bank account to the accounting system and verifies that the payroll checks and direct deposits agree to the payroll register and distribution reports provided by the payroll clerk. This final oversight is important as it ensures that the payroll checks and related direct deposits are supported by the payroll distribution report prepared by the payroll clerk.

We reviewed all gross pay computations totaling approximately \$2.4 million for 35 employees¹ during our audit period to determine whether salaries and wages were accurately paid. Except for minor discrepancies which we discussed with District officials, we found the employees' salaries and wages were accurately paid.

Establishing and adhering to a good system for processing and verifying payroll payments ensures the employees are accurately paid their salaries and wages. We commend District officials for designing an effective system that ensures the accuracy of compensation paid to employees.

¹ See Appendix B for more information on our sampling methodology.

APPENDIX A

RESPONSE FROM DISTRICT OFFICIALS

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

POTSDAM CENTRAL SCHOOLS

29 Leroy Street
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(315) 265-2000

July 8, 2016

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

Re: Potsdam Central School District
2016M-161

Dear [REDACTED]:

This letter is in response to the audit conducted July 1, 2014 – February 29, 2016. The District commends the work of the Associate Examiner for the professional approach undertaken during the audit process. Auditing staff was accommodating to the District's operating schedule and took great care as to eliminate intrusions during the operating day.

The District is very appreciative of the audit's findings that the District has established and consistently adheres to good systems for processing and verifying payroll payments so that all employees can be accurately paid their salaries and wages. We appreciate your acknowledgement: "We commend District officials for designing an effective system that ensures the accuracy of compensation paid to employees."

We will continue to monitor, evaluate, and, when warranted, improve our financial procedures.

Sincerely,

Joann Chambers
Superintendent of Schools

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 employees and reviewed the District's written payroll procedures, Board resolutions, employment contracts, CBAs and various financial records and reports to gain an understanding of the District's procedures related to payroll and any associated effects of deficiencies in those procedures.
- We reviewed all gross pay computations for 35 employees during our audit period to determine whether the information entered into the financial system agreed with the time records, pay rates agreed with Board resolutions, employment contracts or CBAs and gross pay was accurately calculated. We selected all seven employees with individual contracts including the employee that is directly involved in processing payroll during our audit period (payroll clerk). We then selected 28 other employees who received a payroll payment during our audit period. We judgmentally selected 12 employees represented by the Civil Service Employees Association (CSEA) contract (select staff in the various titles), nine employees covered by the Teacher's contract, three substitute teachers (pay rate established by Board resolution), three employees covered by the administrator contract and one interim employee (pay rate established by Board resolution).

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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