

Madison-Oneida Board of Cooperative Educational Services

Payroll

DECEMBER 2017



OFFICE OF THE NEW YORK STATE COMPTROLLER
Thomas P. DiNapoli, State Comptroller

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Report Highlights

Madison-Oneida Board of Cooperative Educational Services

Audit Objective

Determine whether BOCES officials accurately paid salaries and wages.

Key Findings

- Payroll access rights were not adequately restricted to employees based on job duties.
- Duties related to the payroll certification process were not properly segregated.
- Except for minor discrepancies, which we discussed with BOCES officials, the employee salaries and wages we reviewed were accurately paid.

Key Recommendations

- Review the payroll access rights of payroll system users to ensure access is limited to authorized job duties.
- Ensure that a payroll clerk is not involved in the payroll certification process.

BOCES officials agreed with our recommendations and indicated that planned to initiate corrective action.

Background

The Madison-Oneida Board of Cooperative Educational Services (BOCES) is governed by the Board of Education (Board) which is composed of nine members elected by the boards of education of its component school districts. The Board is responsible for the general management and control of the BOCES. The District Superintendent is the BOCES' chief executive officer and is responsible, along with other administrative staff, for day-to-day management. The Assistant Superintendent for Administrative Services (Assistant Superintendent) is responsible for certifying payroll. The Director of Finance (Director) is responsible for approving employees' payroll access rights.

Quick Facts

Employees	540
2016-17 General Fund Appropriations	\$64 million
2016-17 Personal Service Cost	\$27 million

Audit Period

July 1 2016 - June 30 2017

Accuracy of Salary and Wages

How Should Salaries and Wages Be Accurately Paid?

Payroll represents a significant portion of BOCES annual budget. Budgeted salaries and wages for 2016-17 totaled approximately \$27 million, or about 42 percent of the total budget. Therefore, BOCES officials should establish procedures to ensure that employees are paid the salaries and wages authorized by the Board.

The Board approves employee compensation through collective bargaining agreements (CBAs), employee contracts for those not covered under a CBA and Board policies and resolutions. A well designed payroll processing system can provide assurance that payroll transactions are appropriately supported, properly authorized and accurately paid.

Duties between payroll processing and personnel's authorization functions should be segregated to ensure Board authorized employees and rate changes are entered into the payroll system. Payroll computer access should be assigned based on the resources a user needs to complete his or her job duties. Finally, before checks are distributed, payroll registers or similar records should be reviewed and independently certified to provide oversight of the payroll process.

Proper Payroll Access and Certifications Were Not Implemented

The Board authorizes all salaries and wages (initial rates and rate increases), merit pay and stipends. Human resources (HR) and business office staff are involved in setting up new employees in the payroll system and processing payroll. HR staff fill out an employment notice for most newly hired employees¹ including the salary or wage rate and negotiating unit.

HR staff are responsible for adding new employee information to the computer system, entering the salary or wage rate and sending a copy of the employment notice to the payroll clerk in the business office where it is filed and used for pay verification. Time sheets are approved by each department supervisor and sent to the payroll clerk who enters the hours worked into the payroll system.

The payroll clerk is primarily responsible for processing payrolls. Another business office clerk assists with some payroll duties and a team leader fulfills the clerk's payroll processing duties when the payroll clerk is absent. All three business office employees have access rights in the payroll system, which gives them the ability to add new employees, remove employees, change pay rates and perform other payroll duties.² Because these employees are not responsible for adding

¹ Part-time food service workers, workshop trainees and substitutes are not required to receive an employment notice. These individuals are covered by Board policies which show the authorized pay rates for the various positions.

² Other payroll duties include entering hours into the system, modifying addresses, entering deductions (insurance, garnishments, retirement and flexible benefits), running change reports and processing the payroll.

and inactivating employees, or adding and changing pay rates in the system, they should not have access rights to perform these duties. When payroll access rights are not appropriately restricted, there is a greater risk that inaccurate or inappropriate payments could occur and not be detected.

The Assistant Superintendent performs the payroll certification and told us that he reviews payroll change reports for significant salary shifts as part of his payroll certification process. Before checks and direct deposits are disbursed, he randomly selects three employees from the payroll register and then the payroll clerk calculates the amount of these employee's gross pay.

The Assistant Superintendent then compares the amounts calculated by the payroll clerk to the payroll register. By having the payroll clerk compute the gross pay, the Assistant Superintendent in effect diminishes the independent aspect of the certification, because the payroll clerk is verifying her own work.

Employee Salaries and Wages Were Accurately Paid

Due to the previously identified issues with payroll access rights and the payroll certification process we reviewed salary payments to 14 employees who were paid \$779,900 during our audit period. We also reviewed time records to determine whether any additional payments (e.g., overtime) were supported. We found no significant discrepancies.

In addition, we reviewed payroll records for 35 employees who were paid \$60,900 during May 2017 to determine whether each employee was paid at the Board-approved rate and the amount paid was supported by adequate time records. We found no significant discrepancies.

We also reviewed independent supporting documentation for another 22 employees to determine whether each individual was, or had been, a valid employee. We found no exceptions.

Finally, we reviewed payments to 16 employees totaling \$166,200, which were made after the official date they left BOCES employment, to determine whether these payments were legitimate. We found no exceptions.

Except for minor discrepancies, which we discussed with BOCES officials, the employee salaries and wages reviewed were accurately paid. However, weak controls over user rights to the payroll system and the payroll clerk's involvement in the payroll certification process increases the risk that errors or irregularities could occur and go undetected.

What Do We Recommend?

BOCES officials should:

1. Review the payroll access rights granted to current users and ensure that all users' access rights are limited to those functions needed to perform their job duties.
2. Ensure that staff responsible for payroll processing are not directly involved in the payroll certification process.

Appendix A: Response From BOCES Officials



Madison-Oneida

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December 21, 2017

Ms. Rebecca Wilcox, Chief Examiner
State Office Building, Room 409
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RE: Madison-Oneida BOCES Payroll Report of Examination #2017M-239

Dear Ms. Wilcox,

The Madison-Oneida BOCES appreciates the feedback given in the draft report of the Payroll audit. We agree with the findings and recommendations. This correspondence serves as both the audit response and the corrective action plan to the audit report.

Audit Recommendation #1: BOCES Officials should review the payroll access rights granted to current users and ensure that all users' access rights are limited to those functions needed to perform their job duties.

Implementation Plan of Action: Access rights have been reviewed for the BOCES staff who are authorized to process payroll. Access rights have been modified so that these employees do not have the ability to add new employees, remove employees, or add or change pay rates.

Implementation Date: December 18, 2017.

Person Responsible for Implementation: Lisa Decker, Director of Finance.

Audit Recommendation #2: BOCES Officials should ensure that staff responsible for payroll processing are not directly involved in the payroll certification process.

Implementation Plan of Action: Procedures for payroll certification process have been modified so that the calculation of the amount of the employees' gross pay is performed by the Director of Finance, not the payroll clerk.

Implementation Date: December 6, 2017.

Person Responsible for Implementation: Scott Budelmann, Assistant Superintendent.

Due to the timing between the exit meeting with the Office of the State Comptroller staff and the BOCES regularly scheduled Board meetings, the corrective action plan will be included on the Board meeting agenda for consideration on January 10, 2017. We will submit a Board resolution confirming adoption of the corrective action plan immediately following the meeting.

Sincerely,

Richard Engelbrecht, President
Madison-Oneida BOCES Board of Education

Appendix B: Audit Methodology and Standards

We conducted this audit 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. To achieve the audit objective and obtain valid audit evidence, we performed the following audit procedures:

- We interviewed BOCES officials and employees and reviewed policies, procedures, employee contracts, Board resolutions and various records to gain an understanding of the payroll process and controls.
- We obtained a permissions report from the financial application to determine if payroll access rights granted were based on each user's job duties.
- We reviewed salary and wage payments paid during our audit period to 14 employees judgmentally selected due to the following identified risk factors: five employees had payroll access rights to add new employees and change pay rates, four employees had potential influence over the employees with the access rights and five employees had the same last name as employees with the access rights or potential influence. We determined whether the amounts paid to these employees agreed with employment contracts, employee notices, CBAs and time records.
- We judgmentally selected a sample of payroll records for 35 employees (seven who received less than seven checks, eight paid under multiple budget codes, 10 substitutes and 10 others). We reviewed these employees' gross wages (for a randomly selected month) and examined payroll reports, board authorized employment notices or policies and time records to determine whether salary and wages were accurately paid.
- We randomly selected payroll records for 22 employees (10 newly hired employees and 12 employees who were paid by direct deposit, and opted not to receive a direct deposit statement and instead had online login access to their payroll information). We reviewed these employees' personnel files to determine whether they were legitimate employees.
- We reviewed payments made to 16 employees paid more than 14 days after their payroll inactive date, to determine whether these payments were appropriately made after they left BOCES employment.

We conducted this performance audit in accordance with GAGAS (generally accepted government auditing standards). 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.

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 relevant population size and the sample selected for examination.

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, pursuant to Section 35 of General Municipal Law, Section 2116-1(3)(c) of New York State Education Law and Section 170.12 of the Regulations of the Commissioner of Education. To the extent practicable, implementation of the CAP must begin by the end of the 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. We encourage the Board to make the CAP available for public review in the Clerk's office.

Appendix C: Resources and Services

Regional Office Directory

www.osc.state.ny.us/localgov/regional_directory.pdf

Cost-Saving Ideas – Resources, advice and assistance on cost-saving ideas

www.osc.state.ny.us/localgov/costsavings/index.htm

Fiscal Stress Monitoring – Resources for local government officials experiencing fiscal problems

www.osc.state.ny.us/localgov/fiscalmonitoring/index.htm

Local Government Management Guides – Series of publications that include technical information and suggested practices for local government management

www.osc.state.ny.us/localgov/pubs/listacctg.htm#lmgm

Planning and Budgeting Guides – Resources for developing multiyear financial, capital, strategic and other plans

www.osc.state.ny.us/localgov/planbudget/index.htm

Protecting Sensitive Data and Other Local Government Assets – A non-technical cybersecurity guide for local government leaders

www.osc.state.ny.us/localgov/lgli/pdf/cybersecurityguide.pdf

Required Reporting – Information and resources for reports and forms that are filed with the Office of the State Comptroller

www.osc.state.ny.us/localgov/finreporting/index.htm

Research Reports/Publications – Reports on major policy issues facing local governments and State policy-makers

www.osc.state.ny.us/localgov/researchpubs/index.htm

Training – Resources for local government officials on in-person and online training opportunities on a wide range of topics

www.osc.state.ny.us/localgov/academy/index.htm

Contact

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