



Hilton Central School District

Payroll and Leave Accruals

Report of Examination

Period Covered:

July 1, 2014 – June 10, 2016

2016M-220



Thomas P. DiNapoli

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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 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 Hilton Central School District, entitled Payroll and Leave Accruals. 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 Hilton Central School District (District) is located in the Towns of Clarkson, Greece, Hamlin and Parma in Monroe County. The District is governed by an elected seven-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 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 Business Administrator is responsible for oversight of payroll processing. The Assistant Superintendent for Human Resources is responsible for oversight of leave accrual data entry and monitoring.

The District operates five schools with approximately 4,300 students and 800 employees. The District's general fund budgeted appropriations for the 2015-16 fiscal year totaled \$76.9 million, which were funded primarily with real property taxes, State aid and sales tax. Payroll payments totaled approximately \$35.5 million, or 48 percent, of general fund expenditures in 2014-15.

Objective

The objective of our audit was to review the District's payroll and leave records. Our audit addressed the following related question:

- Did the District accurately pay employees' salaries and wages and adequately monitor and record leave accruals and usage?

Scope and Methodology

We examined the District's payroll and leave records for the period July 1, 2014 through June 10, 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 that 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 and Leave Accruals

The Board is responsible for ensuring that District employees are paid wages and salaries and provided benefits such as leave accruals, in accordance with collective bargaining agreements, District policies, Board resolutions or individual employee contracts. The Board can accomplish this by adopting a written payroll policy, and District officials can further assist by developing more detailed, day-to-day procedures and performing periodic reviews.

We found that District employees' wages and salaries were properly paid. We reviewed payroll payments totaling \$3.6 million made to 40 employees during our audit period and, except for minor discrepancies which we discussed with District officials, we found that the employees' salaries, wages and leave time were accurately paid.

However, even though District officials implemented specific procedures to ensure employee leave accruals were earned in accordance with Board-authorized amounts, they were not followed consistently. Time sheets were modified without employee¹ recertification, and leave accrual usage entered into the District's financial system (System) was not reviewed for accuracy. As a result, some employee leave records were not accurately tracked, resulting in discrepancies between employee time sheets and the System.

Annually, the amount of leave time earned each year and the maximum amount of unused leave time employees are allowed to carry over are automatically posted and carried over in the System.² Each pay period, every employee is required to email their time sheet to the respective building clerk, certifying its accuracy. Each building clerk then creates a summary time sheet and sends it to the Human Resources Department (HR). Specified clerks within HR manually enter the use of leave accruals based on the summary time sheets. However, employees are not required to recertify the summary time sheets if the clerks make necessary changes to the employee time sheets.

We noticed leave accrual discrepancies between employee time sheets and the System. In some instances, the leave time shown in an employee time sheet was not reflected in the individual employee's leave accrual balances and vice versa. In other instances, inconsistent use of leave time codes between time sheets and the System caused leave accrual and usage differences. For example:

¹ Employees were aware of the modifications.

² Additional manual adjustments are made for the employees who receive different leave accrual amounts.

- Leave time used but not recorded in the System – We identified 16 instances³ where the time sheets indicated employees used leave time totaling 11.5 vacation days and 2.5 sick days, but HR did not enter the leave time used into the System. The potential payout for the unrecorded 11.5 vacation days would be \$5,598. District officials indicated that these discrepancies occurred due to the staffing shortages HR experienced during our audit period. The HR staff overlooked the entering of this leave time.
- Leave recorded in the System but not on the time sheets – We identified 12 instances⁴ where HR recorded the use of 7.5 sick days and 3.5 vacation days in the System, but the leave time was not recorded on the employee time sheets. District officials indicated that human error was the cause for these exceptions, which were detected by District staff and corrected. However, they did not obtain employee recertification after the changes were made. The exceptions are as follows:
 - A total of 6.5 sick days were for teaching staff. Since teachers need a substitute, these errors with the time sheets were identified and properly entered into the System.
 - A total of 2.5 vacation days were for a HR staff member not directly involved with the payroll process. However, since HR staff all work in the same office area, the clerk entering the payroll and leave time was aware of the employee's absence and made the correction.
 - One sick day was for a director whose assistant identified the error and the correction was made.
 - One vacation day was for a custodian. The building clerk was aware the individual was out on vacation leave and the correction was made.
- Inconsistent use of leave time codes between the time sheets and the System – We identified 13 instances⁵ where different leave codes were recorded between the employee time sheets and the System. For example, one employee time sheet indicated use of two days of vacation leave, but HR recoded

³ For seven employees

⁴ For seven employees

⁵ For six employees

two days of floating holiday leave. District officials indicated these discrepancies also were, in part, a result of the staffing shortages in HR during our audit period. However, HR staff entering the leave also independently changed the coding for the leave time in certain circumstances to allow an employee to maximize the use of their allocation of leave time before it would be inaccessible. For example, HR staff changed a vacation day to a floating holiday for an employee in our example because a floating holiday cannot be carried over to the next year, whereas a vacation day can.

These discrepancies could potentially result in unnecessary costs to the District as a result of potential payouts for unused leave time that is actually not available. Had leave time accrual records and balances been reviewed periodically and employees been required to recertify their time sheets when changes were made to their time sheets, these discrepancies could have been prevented or detected and corrected in a timely manner.

Recommendations

District officials should:

1. Require employees to recertify or resubmit time sheets when they need to be adjusted because of an error.
2. Perform periodic independent reviews of leave time accruals and time sheets to ensure the records agree and investigate any differences.
3. Ensure that HR staff records employee leave time accurately.

APPENDIX A

RESPONSE FROM DISTRICT OFFICIALS

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



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Casey Kosiorek
Superintendent of Schools
Ext. 7043

August 24, 2016

Jeffrey D. Mazula, Chief Examiner
Office of the State Comptroller
295 Main Street, Suite 1032
Buffalo, New York 14203-2510

Dear Mr. Mazula:

The Hilton Central School District has received and reviewed the draft Report of Examination entitled Payroll and Leave Accruals for the period covered July 1, 2014 – June 10, 2016. On behalf of the Board of Education and administration, we appreciate the opportunity to respond to the findings and to provide our responses to the audit recommendations.

During the audit, the Comptroller's Office conducted a comprehensive examination of the District's financial practices and internal controls. We are pleased that no fraud, waste or abuse was identified by this examination. Further, we appreciate the courteous and professional manner in which the auditors worked with us during the audit as well as the thoroughness of their audit procedures.

The Hilton Central School District takes great pride in the processes in place to safeguard taxpayer money. We have a robust payroll proofing process that requires every employee to complete and electronically sign and submit a bi-weekly timesheet. We were pleased that the Comptroller found that District employees' wages and salaries were accurately paid. Even though specific procedures were implemented to ensure employee leave accruals were tracked and recorded properly, the audit revealed discrepancies between employee timesheets and our accounting system. All instances have been corrected, and we agree with the recommendations outlined in the audit report.

A separate corrective action plan will be submitted as outlined in the Office of the State Comptroller's guidance document titled Responding to an OSC Audit Report: Audit Responses and Corrective Action Plans.

Again, the Hilton Central School District expresses gratitude for the examiners and the work they performed as part of the examination. The Board, Superintendent, and Business and Human Resources staff will continue to maintain controls and accountability over Payroll and Leave Accruals.

Sincerely,

Casey Kosiorek
Superintendent of Schools

APPENDIX B

AUDIT METHODOLOGY AND STANDARDS

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

- We interviewed District officials to gain an understanding of the District's payroll and leave accrual process.
- We reviewed all payroll payments made to 40 employees during our audit period to verify whether the employees' salaries and wages were accurately paid. Our sample was judgmentally selected based on job titles. For our audit sample, we selected all nine HR and Business Office employees and 31 other employees who received payments during our audit period.
- We reviewed collective bargaining agreements (CBAs) and individual employee contracts to determine whether the selected employees were accruing leave time in accordance with applicable CBAs or contracts.
- We compared time sheets to leave accrual records to substantiate any leave amounts used and to determine if leave usage is recorded accurately in the System.

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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