



Honeoye Central School District

Payroll

Report of Examination

Period Covered:

July 1, 2014 – October 1, 2015

2015M-277



Thomas P. DiNapoli

Table of Contents

	Page
AUTHORITY LETTER	1
INTRODUCTION	2
Background	2
Objective	2
Scope and Methodology	2
Comments of District Officials and Corrective Action	3
PAYROLL	4
Recommendation	5
APPENDIX A Response From District Officials	6
APPENDIX B Audit Methodology and Standards	9
APPENDIX C How to Obtain Additional Copies of the Report	10
APPENDIX D Local Regional Office Listing	11

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 Honeoye 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 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 Honeoye Central School District (District) is located in the Towns of Richmond, Canadice, Bristol, South Bristol and West Bloomfield in Ontario County and the Town of Livonia in Livingston 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 chief executive officer of the District and is responsible, along with other administrative staff, for the day-to-day management of the District under the direction of the Board. The District's payroll clerk, under the direction of the Business Manager, is responsible for the entire payroll process.

There are two school buildings in operation within the District, with approximately 600 students and 275 employees. The District's budgeted general fund appropriations for the 2015-16 fiscal year are approximately \$17.5 million, funded primarily with State aid and real property taxes. As with all school districts, payroll represents a large portion of the District's annual budget. Salaries and wages totaled approximately \$7.9 million, or 50 percent of the District's general fund expenditures for the 2014-15 fiscal year.

Objective

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

- Were employees paid accurately?

Scope and Methodology

We examined the payroll records of the District for the period July 1, 2014 through October 1, 2015. We extended the scope of our audit back to January 1, 2014 for the purpose of reviewing employees' reported calendar year pay.

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 recommendation 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 recommendation and have initiated 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

Effective controls over the payroll process include policies, procedures and practices that provide guidance to employees for preparing and disbursing payroll and help to ensure that employees are compensated accurately. Good controls include effective management oversight of those charged with processing payroll and adequate segregation of financial duties so that no one individual can control all aspects of financial transactions. When segregating payroll duties is not feasible, District officials must implement compensating controls to reduce the associated risk, such as reviewing payroll change reports. The absence of adequate controls over processing payroll may leave a payroll system susceptible to error, abuse or fraud.

We reviewed payroll payments along with applicable supporting documentation for 26 employees totaling approximately \$49,000 during the months of September 2014 and May 2015 to determine if the employees were paid accurately. We found employees were paid accurately, except for some minor discrepancies which were discussed with District officials. Furthermore, to verify that employees' pay was properly reported, we traced amounts recorded on individual earnings records to annual wage statements for all 278 employees with earnings from January 1, 2014 through December 31, 2014.¹ We found that the recorded payroll amounts matched the annual wage statements for all 278 employees.

Although we did not find any material discrepancies, we found that District officials have not established adequate internal controls over payroll. Specifically, we found District officials did not adequately segregate payroll duties or establish sufficient compensating controls. The payroll clerk performed all steps in the payroll process, including adding employees and entering and modifying employee information, such as hours worked, salary information, direct deposit information, payroll deductions and withholding amounts in the District's accounting software program. In addition, the payroll clerk is responsible for printing payroll checks and processing direct deposits. Furthermore, the payroll clerk remits the amounts withheld for employee benefits to appropriate entities and has full user access rights for entering and changing employee information in the accounting software program. These incompatible duties were performed without sufficient oversight by someone outside of the payroll process.

¹ The District upgraded its payroll module during this time period. Therefore, reports from two different accounting systems were reviewed.

The District had instituted a compensating control by having both the Superintendent and the Business Manager review the payroll register provided by the payroll clerk before pay day. However, their reviews were not extensive enough because they did not compare payroll journals to payroll source documents (i.e., time records). Further, while the District's accounting software program had the capability to generate payroll change reports, these reports were not routinely prepared or reviewed by the Superintendent or the Business Manager.

When the District allows one individual to have incompatible duties within the payroll function without providing proper oversight, it increases the risk that errors or irregularities could occur and remain undetected. While we found the payroll clerk properly prepared the payrolls we tested, the lack of segregation and oversight creates a control environment that could allow errors to occur and remain undetected.

Recommendation

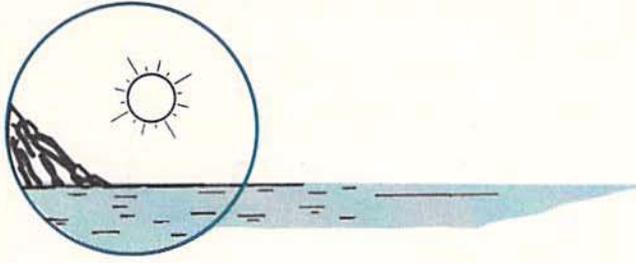
District officials should:

1. Segregate the payroll clerk's duties so that one individual does not control all aspects of payroll transactions. If it is not feasible to adequately segregate the payroll clerk's duties, District officials should establish compensating controls, including reviewing payroll change reports, to routinely monitor and review the payroll clerk's work.

APPENDIX A

RESPONSE FROM DISTRICT OFFICIALS

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



Honeoye Central School

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Office of the State Comptroller
Division of Local Government & School Accountability
PSU –CAP Submission
110 State Street, 12th Floor
Albany, NY 12236

Audit : Payroll
Audit Number : 2015M277

Dear Sir or Madam;

This letter is in response to the above mentioned audit. The District has chosen to include our Corrective Action Plan with this response and it can be found included on the following page.

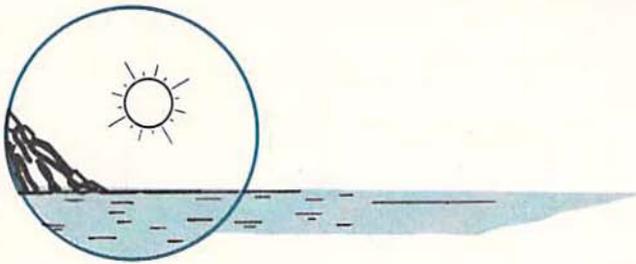
The District agrees with the findings of the audit. Unfortunately, due to the size of our District and the number of personnel in the Business Office it is often very difficult to totally segregate the duties of the Payroll Clerk. However, we appreciate the suggestions may by the Auditor and have made a few changes that do help the situation. The user privileges have been restricted for the Payroll Clerk. She is no longer able to enter a new employee into the system. The Business Manager will take over that function of her job duties. Also we have increased the scope of the quarterly internal reviews done by our Accounts Payable Clerk. (Also a suggestion from the Auditor)

We would like to thank the Audit Team for their cooperation , their suggestions and for their feedback during the audit. Please contact me at 585 229 4123 if you have any further questions or if you need any additional information.

Yours Truly,

Barbara Overfield
District Treasurer/
Business Manager

Encl:



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HONEOYE CENTRAL SCHOOL DISTRICT
JULY 1, 2014 - OCTOBER 31, 2015
Report Title: Payroll
Report Number: 2015M-277

CORRECTIVE ACTION PLAN

Office of the New York State Comptroller audit of Internal Controls over Segregation of Duties and the Payroll System.

Listed below you will find the one recommendation from the Comptroller's Office regarding the above mentioned audit. After the recommendation you will find:

- A. The implementation plan of action
 - B. The actual or planned implementation date
 - C. The person responsible for the action.
-
1. **Segregate the payroll clerk's duties so that one individual does not control all aspects of payroll transactions. If it is not feasible to adequately segregate the payroll clerk's duties, District officials should establish compensating controls, including reviewing payroll change reports, to routinely monitor and review the payroll clerk's work.**
 - A. The District has altered the procedure for adding and/or deleting staff from the accounting system. The Business Manager/District Treasurer will now input all new faculty and staff onto the accounting system. The Payroll clerk's user rights have been restricted so she is no longer able to enter a new employee. We will continue to have our Account Clerk Typist do quarterly audits of the payroll as a compensating control of the payroll clerk's work.
 - B. Immediately and ongoing.
 - C. Barbara Overfield, District Treasurer and Karinda Trowbridge, Payroll Clerk.

Signed:

David Bills, Superintendent
Name, Title

1/2/16
Date

APPENDIX B

AUDIT METHODOLOGY AND STANDARDS

The objective of our audit was to examine the District's payroll process from July 1, 2014 to October 1, 2015. 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's policy manual to obtain an understanding of the District's payroll process.
- We verified the accuracy of payrolls by tracing payroll records for a randomly selected sample of 10 hourly employees for two judgmentally selected sample months (September 2014 and May 2015) to supporting documentation (e.g., timesheets, leave requests, deduction forms, wage rates). We selected the sample months because they had higher expenditures and there were more substitute teachers on the payroll.
- We judgmentally selected 16 salaried employees (based on their positions) to review. We tested their leave usage for two sample months (September 2014 and May 2015) and we verified their rates of pay to employment contracts, collective bargaining agreements and Board minutes for the first pay period of September 2014. We selected the sample months because they had higher expenditures and there were more substitute teachers on the payroll.
- We traced monthly payroll report summaries to bank statements from July 1, 2014 through June 30, 2015.
- We traced amounts recorded on individual earnings records to annual wage statements for all 278 employees employed from January 1, 2014 through December 31, 2014.

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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