



Rye City School District Payroll and Leave Accruals

Report of Examination

Period Covered:

July 1, 2014 – January 31, 2016

2016M-169



Thomas P. DiNapoli

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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 Rye City 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*



State of New York Office of the State Comptroller

EXECUTIVE SUMMARY

The Rye City School District (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 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. A payroll clerk and a human resources clerk assist in maintaining records of time worked and leave time.

The District operates six schools with 3,375 students and 490 employees. The District's budgeted appropriations for the 2015-16 fiscal year were \$82.8 million.

Scope and Objectives

The objectives of our audit were to evaluate the accuracy of the District's payroll payments and to determine if the District properly accounted for leave accruals for the period July 1, 2014 through January 31, 2016. We extended our scope to March 31, 2016 for calculating longevity. Our audit addressed the following related questions:

- Did District officials ensure that salaries and wages paid to employees were accurate?
- Did District officials ensure that leave accruals were properly verified and recorded?

Audit Results

District officials did not require employees to follow established procedures to ensure that paid salaries and wages were accurate and did not have procedures in place to ensure that leave accruals were properly verified and recorded. As a result, we found errors in nine employees' pay. Although not significant, these errors occurred due to lack of management or independent review of the payroll clerk's work.

Further, District officials did not always follow procedures or ensure that employees had enough accruals prior to approving leave requests. In addition, there was no supervisory review of the human resources clerk's work to ensure leave time requested was accurately transferred to the time and attendance system.

These deficiencies increase the risk that errors or irregularities in payroll processing could occur and remain undetected, and employees may be paid for leave days to which they are not entitled.

Comments of District Officials

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 have taken, or plan to take, corrective action.

Introduction

Background

The Rye City School District (District) is located in the City of Rye, Westchester 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 is the chief executive officer and is responsible, along with the Assistant Superintendent for Business and other administrative staff, for the District's day-to-day management under the Board's direction. The Assistant Superintendent for Human Resources is responsible for implementing procedures to maintain accurate leave records and ensure proper oversight of leave benefits. A payroll clerk and a human resources clerk, respectively, assist in maintaining records of time worked and leave accrued and used.

The District operates six schools with 3,375 students and 490 employees. The District's budgeted appropriations for the 2015-16 fiscal year were \$82.8 million, which were funded primarily with real property taxes, State aid, sales tax and grants. Payroll expense accounts for \$43.4 million or approximately 52 percent of general fund expenditures.

Objectives

The objectives of our audit were to evaluate the accuracy of the District's payroll payments and to determine if the District properly accounted for leave accruals. Our audit addressed the following related questions:

- Did District officials ensure that salaries and wages paid to employees were accurate?
- Did District officials ensure that leave accruals were properly verified and recorded?

Scope and Methodology

We examined the District's procedures related to payroll and leave accruals for the period July 1, 2014 through January 31, 2016. We extended our scope to March 31, 2016 for calculating longevity.

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 they have taken, or plan to take, 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 procedures to ensure employees are paid the salaries and wages authorized by the Board. The Board approves amounts to be paid through collective bargaining agreements (CBA), individual employee contracts and Board resolutions. The Board and District officials have established policies and procedures that provide guidance and oversight for employees who process payroll.

District staff did not always follow the payroll procedures in place.

Payroll is paid semimonthly on the 15th and the 30th of each month. Each position is paid based on a CBA, contract or Board resolution. All full-time positions are paid through an annualized salary allocation. First-year teacher aides and hourly employees, other than food service workers, are required to complete a “blue sheet” (time sheet) and signed and approved by their respective supervisor (Building Principal, Director of Special Education, etc.). All additional payments or changes to the rate (e.g., a teacher aide substituting for a teacher assistant or for a teacher aide – special education) are recorded on the time sheet that is signed by the supervisor and submitted to the Payroll Department. Payroll time for hourly food service workers and custodians is captured by a time clock system. However, the system is not integrated with the District’s computer system. Therefore, the payroll clerk prints out these payroll hours and manually enters them. With the significant number of manual entries required each pay period, it is important to reconcile time sheets to the manual entries to ensure accuracy.

We judgmentally selected and examined records for four payrolls in June and December 2015¹ for 50 employees, totaling \$253,770, to determine whether salaried and hourly employees were paid according to their respective CBA, employee contract or Board-approved rates. We also determined whether employees in our sample who received compensation other than salary were paid accurately. For the two months, there were approximately 300 time sheets for each of the four payrolls. We found errors in nine employees’ pay. Although not significant, these errors occurred because the payroll clerk manually entered wrong rates or hours and there was no supervisory or independent review of her work. The Assistant Superintendent for Business and the Treasurer review the change report, which shows the

¹ We selected June and December as representing the end of the 2014-15 fiscal year and the midpoint of the 2015-16 fiscal year.

change from the last pay to the current pay, which may capture some of the errors. However, the change report only compares salaried amounts, not the hours recorded from the time sheets.

The volume of manual entries that are necessary for each payroll cycle, along with the lack of oversight to verify the accuracy of the work performed by the payroll clerk, increases the risk that errors or irregularities with the processing of payrolls could occur and remain undetected.

In addition, one employee was overpaid \$1,125 from July 2015 to March 2016 for longevity to which he was not entitled. The Human Resources Department is responsible for updating the annual salary and longevity schedules. District officials stated the overpayment was due to an error in updating the salary amounts at the beginning of the fiscal year.

District officials have begun to implement changes to address problems associated with the payroll process. An account clerk is now reviewing the time sheets capturing the hours and assigning rates associated with those hours prior to submitting them to the payroll clerk for entering in the financial software. However, since a large percentage of the time sheets are for changes in rates for teacher's aides and teacher assistants working out of title and for additional hours worked, District officials told us they will be launching an online time sheet to accommodate out-of-title work and to automatically update the associated pay rate within the payroll process. Approval by the supervisor or Building Principal will provide an additional level of verification. In addition, subsequent to our audit fieldwork, District officials informed us they have recovered the \$1,125 longevity overpayment.

Recommendation

1. District officials should ensure that entries made by the payroll clerk are reviewed for accuracy.

Leave Accruals

Leave accruals represent time off earned by employees. CBAs and employment contracts establish each employee's entitlement to leave benefits. District officials are responsible for ensuring employees accrue, use and are paid for only the leave time to which they are entitled. Accordingly, Department officials should ensure there is supervisory approval for leave time taken, including verification of the accruals available. District officials should also ensure periodic reviews of leave accrual records and balances are conducted to ensure that leave time earned and used is properly tracked for each employee and that each employee's record is accurate.

Employees are entitled to several types of leave, including personal, vacation and sick days, based on their respective CBAs or individual employment contracts. The Assistant Superintendent for Human Resources is responsible for establishing and implementing procedures to maintain accurate leave records and ensure proper oversight of leave benefits. The District uses two software programs: one that allows employees to submit leave requests electronically to their immediate supervisors or department heads for approval, and a leave accrual application within the financial software. A clerk in the office of the Assistant Superintendent for Human Resources (HR clerk) is responsible for merging the approved leave requests into the leave accrual application (financial software) and making adjustments for any errors generated from the merger prior to the final posting. The financial software will reject a final posting of the accrual with negative balances.

Employee leave balances are available on the web-based financial software for all employees and their supervisors to view. The supervisor is responsible for approving only those requests that follow the District's policy, CBAs and employment agreements and that have adequate leave accruals available. However, there was no supervisory review of the HR clerk's work to ensure leave time requested was accurately transferred to the time and attendance system. In addition, not all requests followed District procedures.

We selected and tested 102 leave requests from custodians, teachers, teacher aides and assistants. Except for minor discrepancies, employees' leave records were accurate and in accordance with the respective CBAs or employment agreements. However, 10 requests were not approved by the responsible supervisors and had been manually adjusted on the employees' time and attendance records. In addition, 12 requests were approved after the leave was taken.

While we did not find employees exceeding their leave time accruals, District officials told us that not all supervisors ensured the employees have enough accruals prior to approving leave requests. As a result, there is a risk that employees may be paid for unavailable leave days, requiring the need to subsequently deduct amounts from paychecks to recover overpayments. In addition, the lack of oversight of the HR clerk's work could result in data entry errors that may not be detected and corrected in a timely manner.

Recommendations

District officials should:

2. Prepare written procedures for supervisors to ensure that prior to approving leave requests, they determine if employees have sufficient leave balances.
3. Ensure there is a periodic supervisory review and comparison of leave requests to the time and attendance system to ensure that the leave times earned and used are accurate.

APPENDIX A

RESPONSE FROM DISTRICT OFFICIALS

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



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July 5, 2016



Division of Local Government and School Accountability
Office of the State Comptroller
33 Airport Center Drive, Suite 103
New Windsor, New York 12553

Re: Rye City School District
Payroll and Leave Accruals
Report of Examination: 2016M-169
July 1, 2014 – January 31, 2016

Dear [REDACTED]:

The Rye City School District acknowledges receipt and review of the draft report relative to the recent audit conducted by the Office of the State Comptroller: Local Government and School Accountability Division. The District is appreciative of the input from the auditors, and will be addressing the recommendations in the corrective action plan that will be submitted shortly.

The District is thankful for the courteous and professional manner in which the audit was conducted. The field audit team demonstrated a high level of respect and thoughtfulness for all district staff throughout the audit process.

If additional information is required please contact Gabriella O'Connor, Assistant Superintendent for Business.

Sincerely,

Frank Alvarez

APPENDIX B

AUDIT METHODOLOGY AND STANDARDS

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

- We reviewed CBAs, individual employment contracts and Board-approved policies.
- We interviewed key personnel to obtain an understanding of the payroll process, the accrued leave process and supervisory approvals.
- To determine the sample to be used, we took the entire current employee listing, removed the duplicate entries for the same name and removed administrators, teachers, nurses and substitute positions. The remaining list was used to obtain a random sample for testing of four classifications of employees (15 food service workers, one security staff member, 26 teacher aides and assistants and eight custodians).
- To determine whether hours paid were consistent with those on the time sheets for the eight custodians and 15 food service workers, we compared the June 2015 and December 2015 electronic time sheets to the corresponding payroll records.
- To determine whether hours paid were consistent with those on the “blue sheet” (manual time sheet used to record hours for non-salaried or for hourly employees) for 27 (security personnel, teachers’ aides and assistants) employees, we compared the June and December 2015 blue sheets to the payroll records.
- We selected June and December 2015 as test months because June was the last month of the prior fiscal year and December was the midway point in the current fiscal year.
- To determine if the above sample of employees were paid in accordance to their contracts, we verified whether their job rates were consistent with the amounts paid and posted to the payroll journals.
- To determine if leave requests were properly approved and in accordance with the applicable contracts, we judgmentally select 36 employees from those employees who used vacation or personal time for the months of June and December 2015. We obtained reports from the District’s web-based system for the selected employees for the chosen time period and recorded the dates the requests were made, the dates the requests were for and the accrual balances at that time. We also recorded the dates of supervisor approvals and, if applicable, the dates of secondary approval.

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 objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

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