



William Floyd Union Free School District Payroll

Report of Examination

Period Covered:

July 1, 2014 – December 31, 2015

2016M-165



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 William Floyd Union Free 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 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 William Floyd Union Free School District (District) is located in the Town of Brookhaven, Suffolk 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 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 District operates eight schools with approximately 8,700 students and 1,500 employees. The District's budgeted appropriations for the 2015-16 fiscal year are \$222.9 million, which are funded primarily with State aid, sales tax, real property taxes and grants.

Objective

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

- Did District officials establish adequate procedures to ensure that employees' salaries and wages were accurately paid?

Scope and Methodology

We examined the District's payroll procedures for the period July 1, 2014 through December 31, 2015.

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 findings and recommendations and indicated that 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

Payroll is the District's most significant operating cost. Salaries and wages, including overtime, totaled approximately \$91.6 million (41 percent) of the District's general fund expenditures of \$223.9 million in the 2014-15 fiscal year. Therefore, it is essential that District officials establish procedures to ensure that employees are paid the salaries and wages authorized by the Board, and that overtime work is authorized and necessary. A well-designed payroll processing system also requires policies and procedures that provide guidance and oversight for employees who process payroll. The same individual should not be responsible for incompatible payroll processing functions (such as recording pay rates/salaries, entering employees' leave usage, and preparing and distributing paychecks). Alternatively, if limited staff precludes an adequate segregation of duties, District officials should implement compensating controls. In addition, someone independent of payroll preparation must examine the payroll and certify that the employees listed have worked the hours claimed and are being paid at Board-approved rates, and that overtime worked is documented and preapproved to show its necessity.

Segregation of Duties – The Board approves amounts to be paid through collective bargaining agreements (CBAs) and individual employment contracts, and approves the hiring of all new employees through resolution. However, District officials did not adequately segregate payroll duties or establish sufficient compensating controls over the payroll process.

Human Resources Department¹ (HR) staff record new employees' information in the HR module of the financial system, with the exception of salaries and wages. The District's Payroll Manager enters all employees' pay rates, salary information, withholdings and deductions, and any changes to this information, into the financial system payroll module. Additionally, after Department heads review and approve time sheets and leave requests, the Payroll Manager, with the assistance of two payroll clerks,² inputs this information into the financial system. When satisfied that payroll is correct, the Payroll

¹ Three individuals in the Human Resources Department enter new employees' information into the financial system based on their CBA or individual contract. For example, one employee will enter new employee information for all individuals hired under the teachers' and administrators' CBA.

² The Payroll Manager and payroll clerks generally process time sheets based on CBAs. The Payroll Manager generally processes the time sheets for all teachers and administrators and the two payroll clerks process the time sheets for all other CBAs. However, all three individuals have access to process time sheets for all employees.

Manager processes the biweekly payrolls, prepares payroll checks, and distributes them.

The Payroll Manager performs these incompatible duties without sufficient oversight or independent review. District officials instituted a compensating control by having the Superintendent, who is independent of the payroll process, certify the payrolls. However, no one independent of the payroll process reviews hourly rates or annual salaries entered by the Payroll Manager for accuracy or compares the payroll registers with payroll source documents (i.e., time records) to ensure that payments were based on the actual hours or days worked prior to payroll processing.

To determine whether employees' salary was properly recorded, we traced amounts recorded on in the financial software to annual salary agreements, contracts and Board resolutions for 20 employees from July 1, 2014 through June 30, 2015. The recorded payroll amounts matched the annual salary agreements for each employee. We reviewed payroll payments and applicable supporting documentation for the same employees totaling approximately \$123,400 during the month of October 2014³ and found that their salaries and wages were paid accurately. We also found that the payroll clerks properly prepared the payrolls we tested.

Although we did not find any discrepancies, when one individual has incompatible payroll duties without adequate oversight, there is an increased risk that errors or irregularities could occur and remain undetected. In the absence of adequate policies and procedures to verify the accuracy of payroll data, District officials do not have adequate assurance that employees are accurately paid their salaries or wages.

Overtime – Good internal controls over payroll include procedures that require prior written approval and justification of overtime. At the end of the payroll period, these approvals should then be reconciled to the employee's time sheets to verify that all overtime was properly authorized and recorded. The District has nine CBAs, five of which stipulate that hours worked in excess of scheduled hours are generally paid at an overtime rate of time and one half. During the 2014-15 fiscal year, the District incurred over \$716,000 in overtime costs paid to 360 employees.

The District does not have adequate procedures in place to ensure overtime is preapproved, and District officials generally did not preapprove overtime worked by employees. Of the 20 employees

³ Appendix B contains our sampling methodology.

we examined, 13 worked overtime during our audit period. During October 2014, these employees incurred 423.5 hours in overtime work valued at over \$13,300. Of this amount, 388.8 hours (92 percent) totaling \$11,867 was not approved in advance. For example, a security guard was paid \$1,147 for 52.5 hours of overtime in one two-week pay period with no indication on the time sheet of prior approval of the overtime or the reason it was necessary. As a result, the District could be paying for unnecessary overtime.

Recommendations

1. District officials should:
 - Either segregate payroll processing duties or implement compensating controls, such as increased oversight and/or management reviews of the Payroll Manager's work.
 - Implement procedures to properly control and monitor overtime by approving and providing justification for overtime before the work is performed.
2. The Superintendent, or someone else independent of the payroll process, should compare payroll registers to source documents when certifying payrolls to ensure that payments are based on actual hours or days worked and Board-authorized hourly rates or annual salaries.

APPENDIX A

RESPONSE FROM DISTRICT OFFICIALS

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



William Floyd Union Free School District

of the MASTICS – MORICHES – SHIRLEY

Our rich history builds a promising future!

Kevin M. Coster
Superintendent of Schools

June 21, 2016

Mr. Ira McCracken
Chief Examiner
Office of the New York State Comptroller
NYS Office Building, Room 3A10
250 Veterans Memorial Highway
Hauppauge, New York 11788

Dear Mr. McCracken,

The Board of Education of the William Floyd School District (the “Board”) acknowledges the findings and recommendations in the Office of the State Comptroller’s Report entitled Payroll, Report of Examination 2016M-156. An exit conference was held on June 15, 2016 to discuss the findings and understanding of the recommendations.

We are in agreement with your recommendations in the draft audit report, which will ultimately improve already existing procedures. The Board would like to point out that during the course of on-site field work, additional controls were immediately implemented where possible, based on daily ongoing collaborative discussions with the auditors and the business office. It should be noted that the audit showed that the payroll department accurately prepared payroll accordingly, (see below);

“We reviewed payroll payments and applicable supporting documentation for the same employees totaling approximately \$123,400 during the month of October 2014 and found that their salaries and wages were paid accurately. We also found that the payroll clerks properly prepared the payrolls we tested.”

We have included corrective actions to the recommendations contained in the draft audit. They are outlined below:

Recommendation

1. District officials should:

- A. Either segregate payroll processing duties or implement compensating controls, such as increased oversight and/or management reviews of the Payroll Manager’s work.

Corrective Action:

The Superintendent has always been required to certify payrolls, but was not provided with all pertinent back-up documentation. Immediately, the Superintendent was provided with all timesheets, contractual changes and back-up documentation to certify payrolls. Additionally, the district is in the process of initiating another mitigating control prior to the Superintendent’s certification. The Human Resources department will conduct a review to confirm that all rates or changes are accurately entered into the system, based on Board approval.

- B. Implement procedures to properly control and monitor overtime by approving and providing justification for overtime before the work is performed.

Corrective Action:

Wherever possible, the district will require written approval of overtime prior to it being executed based on CBA agreements and forms. If for some reason, this is not possible due to extenuating circumstances, the district will be notified of the reason for the overtime, as soon as possible.

** It should be noted that 98 percent of all district employees, including the Superintendent of Schools, utilizes a biometric scanning device to sign in and out of work daily. The process requires that the employee enters his or her individual "ID" number and then biometrically scans, to confirm that it is the person associated with the "ID" number. Overtime, wherever applicable, is automatically calculated based on CBA or individual agreements and FSLA.

Recommendation

2. The Superintendent or someone else independent of the payroll process, should compare payroll registers to source documents when certifying payrolls to ensure that payments are based on actual hours or days worked and Board-authorized hourly rates or annual salaries.

Corrective Action:

The payroll will be reviewed by the district's auditor to make sure that timesheets and contractual payments are in compliance with CBAs and adhere to Board-approved rates. Additionally, the district's treasurer will review overtime and payroll changes for each payroll to ensure payments are being calculated correctly.

The Board would like to thank you for your recommendations and for the ongoing collaborative resources that your office has and continues to provide. We look forward to working with you and to implement any suggestions that you may have.

Sincerely,

Kevin M. Coster
Superintendent of Schools

Robert Vecchio
Board of Education President

/ms



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APPENDIX B

AUDIT METHODOLOGY AND STANDARDS

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

- We interviewed District officials and key employees and reviewed Board meeting minutes and the policy manual to gain an understanding of the District's payroll processing procedures.
- We reviewed CBAs in effect during our audit period to determine whether salary payments were properly authorized and in accordance with the agreements.
- We judgmentally selected 20 employees from the 1,584 employees paid during the audit period and traced amounts recorded on individual earnings records to annual salary agreements, contracts and resolutions. The sample was composed of three individuals who process payroll, the highest-paid employee from each of the nine CBAs, the four highest paid employees from the Security CBA, and the four highest paid employees from the Maintenance/Custodial/ Grounds CBA. We selected the eight employees from the latter two CBAs as higher risk due to the amount of overtime that individuals under these agreements generally work.
- We tested the payroll records for the same 20 employees for October 2014 to ensure that the employees were paid accurately. We judgmentally selected October 2014 due to the lack of payroll anomalies, such as overtime due to winter storms, school beginning or ending, school breaks, etc. We traced the selected employees' pay amounts during these pay periods to time sheets, CBAs, salary notices, Board resolutions and overtime preapproval documentation to determine if the employees' pay was calculated properly.
- We scanned computerized payroll data for unusual payments during the audit period and obtained explanations from District officials for selected payments.

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.

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