

New Hartford Central School District

Payroll

DECEMBER 2021



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

Contents

- Report Highlights 1**

- Payroll. 2**
 - How Should a School District Ensure That Salaries and Wages
Are Accurately Paid?. 2

 - Officials Accurately Paid the Salaries and Wages Tested but
Internal Controls Could Be Improved 2

 - What Do We Recommend? 4

- Appendix A – Response From District Officials 5**

- Appendix B – Audit Methodology and Standards 8**

- Appendix C – Resources and Services.10**

Report Highlights

New Hartford Central School District

Audit Objective

Determine whether New Hartford Central School District (District) officials ensured the District accurately paid employees' salary and wages.

Key Findings

Our audit found that District officials accurately paid \$3.1 million in salaries and wages to the 48 employees we tested, in accordance with Board authorizations. However, there are opportunities for District officials to strengthen internal controls over payroll. Officials did not:

- Adequately segregate the duties of or establish adequate compensating controls over the payroll clerk who could add new employees to the financial system and was responsible for adding and changing salaries and pay rates, processing the payroll, and signing and distributing payroll checks.
- Ensure payroll user permissions were restricted to employees based on job duties.
- Ensure the Assistant Superintendent for Business Affairs (Assistant Superintendent) or another employee routinely monitored the payroll clerk's work by comparing payroll source documents to payrolls to mitigate the risks related to the payroll clerk's duties.

Key Recommendations

- Segregate payroll processing duties or implement adequate compensating controls.
- Ensure users' payroll permissions are limited to their authorized job duties.
- Properly monitor the payroll clerk's work.

District officials agreed with our recommendations and have initiated, or indicated they planned to initiate corrective action.

Background

The District, located in the Towns of New Hartford, Paris and Kirkland in Oneida County and the Town of Frankfort in Herkimer County, is governed by the Board of Education (Board), which includes seven elected members. The Board is responsible for the general management and control of financial and educational affairs.

The Superintendent of Schools is the District's chief executive officer, responsible, along with other administrative staff, for day-to-day management under the Board's direction.

The Assistant Superintendent oversees business operations including the payroll function.

A payroll clerk is responsible for processing the District's payrolls.

2020-21 Quick Facts

Appropriations	\$54.6 million
Budgeted Salaries and Wages	\$23.8 million
Employees	425

Audit Period

July 1, 2019 – November 30, 2020

Payroll

How Should a School District Ensure That Salaries and Wages Are Accurately Paid?

Payroll makes up a significant portion of a school district's operating costs. Therefore, school district officials should establish procedures to ensure that employees are paid the salaries and wages authorized by the board. The board should establish and approve all salary and hourly wages as part of a collective bargaining agreement (CBA), individual contract or resolution. The terms and conditions of all employment agreements should be clearly communicated to those responsible for payroll processing.

Additionally, payroll authorizations should be segregated from payroll processing and check distribution. Individual payroll amounts should be traceable to authorization documents and supported by time and attendance records. Any changes in employment status or salary and wage rates should be properly authorized, approved and documented to support the changes. Before checks are distributed, payroll registers or similar records should be reviewed and independently certified to provide oversight of the payroll process.

Officials Accurately Paid the Salaries and Wages Tested but Internal Controls Could Be Improved

We examined the annual gross salary and wages paid to 24 employees totaling almost \$2.5 million in 2019-20 to determine whether the amounts these employees were paid were accurate.¹ We traced the salaries and wages paid to appropriate Board authorizations including annual salary notices, CBAs and individual employment contracts without exception.

In addition, we reviewed salaries paid totaling approximately \$550,000 to four business office employees during our audit period. We also reviewed the gross pay for 20 employees for one pay period and additional stipends paid to two of these employees totaling approximately \$77,700. We selected 10 employees hired during our audit period and traced to documentation in the Board minutes showing the Board approved the appointments. Further, we tested seven employees who left District employment during our audit period and determined whether payroll payments were ended in line with employment end dates. We did not identify any material exceptions.

The Board approves new positions, authorizes employee hiring and approves employee compensation through CBAs, employee contracts and Board policies and resolutions. However, District officials did not adequately segregate payroll duties or establish sufficient compensating controls over the payroll process.

¹ Refer to Appendix B for information on our sampling methodology.

An account clerk in the business office entered new employee information (e.g., name, address, position) into the financial management system. The payroll clerk entered employees' salary or hourly pay rates, withholdings and deductions and direct deposit information into the financial system and any subsequent changes to this information. The payroll clerk and another employee who serves as a back-up for the payroll clerk had payroll user permissions to add new employees to the system, even though they do not need these permissions to perform their job duties. According to the Assistant Superintendent, the District was unable to restrict user permissions to add employees to the financial system from other permissions the payroll clerk needed for her job duties. Officials have requested the software vendor to correct this issue.

The payroll clerk obtained time sheets and a summary of time worked approved by building supervisors and entered the information into the financial system to process the bi-weekly payrolls. She reviewed payroll change reports and performed various comparisons to check the accuracy of her own work.

Once satisfied that the payroll was correct, the payroll clerk authorized payroll checks containing the Treasurer's signature to be printed at the Mohawk Regional Information Center (MORIC), which is part of the Madison-Oneida Board of Cooperative Educational Services. The Treasurer was not involved in the check signing process. The payroll clerk received payroll checks and direct deposit statements from the MORIC and packaged them to be distributed to each District building.

Because the payroll clerk had unneeded payroll user permissions and duties were not segregated, the payroll clerk could control all phases of the payroll process. This allowed the payroll clerk to add new employees to the financial system, add and change salaries and pay rates, process the payroll and sign and distribute payroll checks.

While the Assistant Superintendent performed a payroll certification before checks and direct deposits were disbursed, her review was insufficient to mitigate the risks related to the payroll clerk's duties. Although, the Assistant Superintendent reviewed a payroll change report along with a report listing each employee's check and direct deposit amounts (net pay), this report did not include the employee's amount of gross pay or deductions.

The Assistant Superintendent told us she reviewed the payroll certification packet for reasonableness and compared the total dollar amount for the payroll with the information to the prior year to determine whether it was consistent. However, officials had no procedures in place for the Assistant Superintendent or another employee independent from the payroll process to routinely monitor the payroll clerk's work by comparing payroll source documents to payrolls, minimally on a test basis. This would help ensure payments are based on actual hours or days

Because the payroll clerk had unneeded payroll user permissions and duties were not segregated, the payroll clerk could control all phases of the payroll process.

worked and employee wages and salary calculations are accurate and agree to Board authorized amounts.

While our testing found the District accurately paid salaries and wages in accordance with Board authorizations, opportunities exist for District officials to improve internal controls and management oversight of the payroll process. This would provide officials with greater assurance that errors and irregularities do not occur and remain undetected and uncorrected.

What Do We Recommend?

District officials should:

1. Review payroll user permissions and ensure that all permissions are limited to those functions users need to perform their job duties.
2. Segregate payroll processing duties or implement adequate compensating controls, such as increased oversight and/or management reviews of the payroll clerk's work. For example, the Assistant Superintendent or an employee independent of the payroll process, could compare payroll registers to source documents to help ensure that payments are based on actual hours or days worked and Board-authorized hourly rates or annual salaries.

The Treasurer should:

3. Control when her signature is applied to District checks.

Appendix A: Response From District Officials

NEW HARTFORD CENTRAL SCHOOL DISTRICT

33 Oxford Road
New Hartford, NY 13413
315-624-1218
Fax: 315-724-8940

November 22, 2021

Rebecca Wilcox, Chief Examiner
Office of the State Comptroller
State Office Building, Room 409
333 E. Washington Street
Syracuse, New York 13202-1428

Office of the State Comptroller
Division of Local Government and School Accountability
PSU-CAP Submission
110 State Street, 12th Floor
Albany, New York 12236

New York State Education Department
Office of Audit Services, Room 524 EB
89 Washington Avenue
Albany, New York 12234

Dear Office of State Comptroller:

The New Hartford Central School District has received and reviewed the preliminary draft Report of Examination for the audit period July 1, 2019 – November 30, 2020. The New Hartford Central School District appreciates the opportunity to acknowledge the findings and provide a corrective action plan included in this response to the audit recommendation.

During the course of the audit the Comptroller's Office conducted a risk assessment of the District's financial processes, including payroll, financial oversight, cash receipts and disbursements, purchasing and personnel services. The audit focused on payroll. As part of this examination the Comptroller's Office identified processes that can be strengthened in our internal controls over payroll. The administrative team concurs with these recommendations and the following Corrective Action Plan will be approved by the Board of Education within ninety (90) days of the release of the report.

The audit found that District Officials accurately paid salaries and wages to a test sample of employees in accordance with Board authorizations. While the audit did not identify any improper practices or errors, it did provide recommendations on how to further improve the District's internal controls over payroll.

The Audit recommendation is as follows:

1. Review payroll user permissions and ensure that all permissions are limited to those functions users need to perform their job duties.
2. Segregate payroll processing duties or implement adequate compensating controls, such as increased oversight and/or independent reviews of the Payroll Clerk's work.
3. Control when the Treasurer's signature is applied to District checks.

The administrative team concurs with these recommendations and implemented the following changes immediately during the audit process:

The Implementation Plan of Action

1. Payroll user permissions were changed immediately to "view only" within the Human Resources (HR) module for the Payroll Clerk, removing her ability to add/update new personal information into the payroll system. This previous access was needed to make changes in the retirement system section and other areas of the HR module. Therefore, a request was made by the BOCES Regional information center to the payroll software vendor to separate access to employee name, address, and social security number within the user permissions section of their software to allow the Payroll Clerk access to the areas necessary to complete her job duties yet still maintain strong internal controls. The vendor agreed to make the requested changes in their next software update.
2. The Assistant Superintendent for Business Affairs reviews several detailed employee payroll reports each payroll period. To strengthen oversight, an additional payroll transaction detail report was added to the payroll certification packet. This report lists detailed earnings information for each employee including gross and net pay, units of pay, pay rates, deductions, and budget codes. In addition, the Human Resources Office Account Clerk is comparing source documents for a sample group of employees each payroll to ensure that payments are based on actual time worked and Board authorized hourly rates/salaries.
3. All checks are stored and printed offsite at the BOCES Regional Information Center. The Treasurer's electronic signature is password protected and therefore will only be applied to District checks upon her approval/use of the password.

Implementation Date:

All corrective action plan items were implemented immediately during the audit process.

Person Responsible for the Implementation:

The Assistant Superintendent for Business Affairs is responsible for the implementation of the Corrective Action Plan.

This corrective action plan was discussed with the Audit Committee and will be recommended for approval by the Board of Education within ninety (90) days of the release of the report.

The administrative team as well as the Audit Committee appreciates your assistance in further strengthening our internal controls and processes. The audit was both thorough and professional and we appreciate the communication throughout the audit process.

Sincerely,



Cosimo Tangorra, Jr. Ed.D
Superintendent of Schools

CT:rak

cc: Board of Education

Mrs. Mary Mandel, Assistant Superintendent for Business Affairs

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, our audit procedures included the following:

- We interviewed District officials and employees and reviewed Board resolutions, employment contracts and payroll reports to gain an understanding of the payroll process.
- During our audit period, payroll disbursements to 680 employees totaled \$31.7 million, including separate disbursements to employees who received at least one check. We tested selected records and transactions, and examined pertinent documents including canceled payroll checks to verify the reliability of the payroll data we obtained from the District.
- We used our professional judgment to select all nine employees covered by the Teacher's Association Administrative Group (TAAG) CBA and the 15 employees with the highest instructional salaries, which were used to calculate the TAAG salaries. We reviewed our sample of these 24 employees to determine whether the salaries paid to these employees for 2019-20 were accurate and paid in accordance with salary notice letters and CBAs.
- We used our professional judgment to select the three District employees who had payroll user permissions to add new employees and/or change pay rates and the Assistant Superintendent who oversaw the payroll process. We compared the gross amounts paid annually to these employees to salary notice letters and CBAs or employment contracts.
- We used our professional judgment to select 20 employees representing a cross section of different District employees and examined their personnel files along with CBAs or employment contracts to determine the salary and wages authorized to be paid. Additionally, we reviewed the salaries and wages paid to these employees for one pay period and additional stipends paid to two of these employees to determine whether payments were accurate and agreed to Board approved rates and/or CBAs and employment contracts and traced to time and attendance records where applicable.
- We used electronic payroll data to identify employees hired during our audit period. We used our professional judgment to select every 10th employee for a total of 10 employees and examined supporting documentation to determine whether the Board's approval of each appointment was documented in the Board minutes.
- We used our professional judgment to select seven employees who left District employment during our audit period. We traced to resignation letters or other documentation and determined whether payroll payments were ended in line with employment end dates.

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

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.

The Board has the responsibility to initiate corrective action. 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-a (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 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 CAP should be posted on the District's website for public review.

Appendix C: Resources and Services

Regional Office Directory

www.osc.state.ny.us/files/local-government/pdf/regional-directory.pdf

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

www.osc.state.ny.us/local-government/publications

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

www.osc.state.ny.us/local-government/fiscal-monitoring

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

www.osc.state.ny.us/local-government/publications

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

www.osc.state.ny.us/local-government/resources/planning-resources

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

www.osc.state.ny.us/files/local-government/publications/pdf/cyber-security-guide.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/local-government/required-reporting

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

www.osc.state.ny.us/local-government/publications

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

www.osc.state.ny.us/local-government/academy

Contact

Office of the New York State Comptroller
Division of Local Government and School Accountability
110 State Street, 12th Floor, Albany, New York 12236

Tel: (518) 474-4037 • Fax: (518) 486-6479 • Email: localgov@osc.ny.gov

www.osc.state.ny.us/local-government

Local Government and School Accountability Help Line: (866) 321-8503

SYRACUSE REGIONAL OFFICE – Rebecca Wilcox, Chief Examiner

State Office Building, Room 409 • 333 E. Washington Street • Syracuse, New York 13202-1428

Tel (315) 428-4192 • Fax (315) 426-2119 • Email: Muni-Syracuse@osc.ny.gov

Serving: Herkimer, Jefferson, Lewis, Madison, Oneida, Onondaga, Oswego, St. Lawrence counties



Like us on Facebook at facebook.com/nyscomptroller

Follow us on Twitter [@nyscomptroller](https://twitter.com/nyscomptroller)