

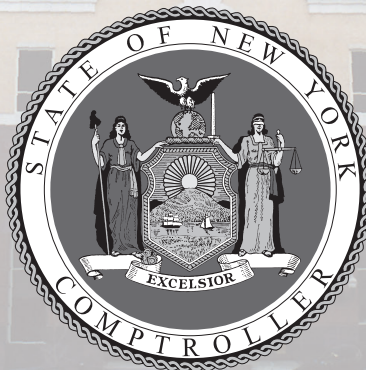


# Auburn Enlarged City School District Employee Compensation and Benefits Report of Examination

Period Covered:

July 1, 2015 – July 5, 2017

2017M- 153



Thomas P. DiNapoli

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# State of New York Office of the State Comptroller

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## **Division of Local Government and School Accountability**

November 2017

Dear District Officials:

A top priority of the Office of the State Comptroller is to help local government officials manage government resources efficiently and effectively and, by so doing, provide accountability for tax dollars spent to support government operations. The Comptroller oversees the fiscal affairs of local governments statewide, as well as 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 governance. Audits also can identify strategies to reduce costs and to strengthen controls intended to safeguard local government assets.

Following is a report of our audit of the Auburn Enlarged City School District, entitled Employee Compensation and Benefits. 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 local government 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 Auburn Enlarged City School District (District) is located in the City of Auburn and Towns of Aurelius, Fleming, Owasco and Sennett in Cayuga County. The District is governed by the Board of Education (Board), which is composed of nine 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 also employs an Assistant Superintendent for Personnel and a Business Executive, who are responsible for overseeing the various aspects of the District's payroll related operations, under the direction of the Superintendent and Board.

The District has seven schools in operation, which include five elementary schools, a junior high school and a senior high school. The District also has a partnership with Cayuga Centers to provide educational services at the Cayuga Home for Children, a residential treatment center. The District has approximately 4,200 students and 1,000 full- and part-time employees. The District's budgeted general fund appropriations for the 2016-17 fiscal year were approximately \$73.4 million, funded primarily by State aid and real property taxes.

District employees are compensated based on collective bargaining agreements (CBAs), individual employment contracts and District personnel policies. All payroll transactions are recorded in the District's computerized financial database.

## Objective

The objective of our audit was to review the District's employee compensation and benefits transactions with the aid of computer-assisted auditing techniques (CAATs). Our audit addressed the following related question:

- Did District officials ensure the accuracy of the compensation paid and employee benefits provided to employees?

## Scope and Methodology

We examined the District's employee compensation and benefits transactions for the period July 1, 2015 through July 5, 2017.

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 planned 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 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.

## Employee Compensation and Benefits

Employee compensation and benefits are a significant operating cost to the District. The Board is responsible for ensuring that District employees are paid and provided employee benefits in accordance with CBAs, District policies and individual employee contracts. This also includes having a system in place to ensure that salaries, wages and employee benefit terms are properly and accurately recorded in the District's financial system. Establishing and adhering to strong procedures decreases the risk that fraud, abuse or errors may occur and go undetected and uncorrected.

An effective payroll system also provides assurance that transactions are appropriately supported, authorized by management and paid accurately and according to an established schedule. The Board should adopt adequate policies and District officials should develop written procedures to ensure employees are accurately paid their respective salaries and wages and receive benefits as appropriate. Furthermore, payroll transactions and reports should be reviewed periodically to ensure accuracy.

District officials have generally taken appropriate action to ensure the accuracy of compensation paid and benefits provided to employees. For example, the District uses the services of the Cayuga-Onondaga Board of Cooperative Educational Services central business office (CBO) for payroll processing services. By using the CBO's services, the District is able to effectively and appropriately segregate incompatible duties related to payroll.

With the aid of computer-assisted auditing techniques (CAATs), we performed a comprehensive audit<sup>1</sup> of the District's employee compensation and benefits transactions and general payroll practices. District officials have generally established effective payroll-related policies and procedures. However, they have not established formal and adequate policies and procedures related to the processing of payroll outside of normal pay dates such as when employees do not submit payroll information in a timely manner. Additionally, District officials did not develop policies or procedures related to the periodic review and reconciliation of payroll withholdings, deductions and contributions, to ensure accuracy. This review would include bi-weekly (or semi-monthly), quarterly and annual payroll reports.

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<sup>1</sup> See Appendix B - Audit Methodology and Standards for further details

We reviewed all payrolls processed to determine those that were processed outside of the normal payroll calendar dates and discussed identified exceptions with District officials to determine the reasons for these occurrences. Further, we compared payroll withholdings, deductions and contributions for calendar year 2016 to employees' wage and tax statements (W2s) to ensure amounts were properly calculated and reported. Except for some minor discrepancies, which we discussed with District officials during our fieldwork, the compensation and benefits provided to employees matched Board-approved contracts and CBA stipulations and withholdings were appropriately calculated.

Although no material errors were found, payroll processed outside of the normal pay cycle, without adequate controls and periodic reviews and reconciliations being completed, increases the risk of errors or irregularities going undetected or uncorrected.

## **Recommendations**

District officials should:

1. Develop adequate and formal policies and procedures requiring employees to submit payroll information on time to avoid the necessity for interim payrolls.
2. Develop appropriate policies and procedures to ensure that periodic review and reconciliations of payroll withholdings, including deductions and contributions, are performed to verify the accuracy of calculations and reports.

## **APPENDIX A**

### **RESPONSE FROM DISTRICT OFFICIALS**

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

The District's response letter includes an attachment that supports the response letter. Because the District's response letter provides sufficient detail of its actions, we did not include the attachment in Appendix A.





# Auburn Enlarged City School District

OFFICE OF THE SUPERINTENDENT OF SCHOOLS

October 11, 2017

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Re: Auburn Enlarged City School District  
#2017M-153 Report of Examination - Employee Benefits and Compensation

Dear Mr. Grant:

The Auburn Enlarged City School District acknowledges receipt of the above referenced draft report of the audit conducted by your office. We have reviewed the report and agree with its findings. This response letter is also serving as the District's Corrective Action Plan, approved by the Board of Education on October 10, 2017.

Audit Recommendation #1:

District officials should develop adequate and formal policies and procedures requiring employees to submit payroll information on time to avoid the necessity for interim payrolls.

Corrective Action Plan:

On September 1, 2017, the district implemented a lag period between the pay period ending date and the payroll check date. A schedule of these dates was distributed to district employees. This will eliminate most instances of interim payrolls due to missed deadlines. In addition, policies and procedures established for normally scheduled payrolls are followed for any interim payrolls.

Audit Recommendation #2:

District officials should develop appropriate policies and procedures to ensure that periodic review and reconciliations of payroll withholdings, including deductions and contributions, are performed to verify the accuracy of calculations and reports.

Corrective Action Plan:

Effective with the 2017-2018 school year, business office staff will periodically choose random samples and test the accuracy of calculations and reports, such as taxable earnings.

The district would like to take this opportunity to express our thanks to the OSC staff for their professionalism and assistance during the audit.

Respectfully,

Michael McCole  
President of the Board of Education

Jeffrey Pirozzolo  
Superintendent of Schools

## APPENDIX B

### AUDIT METHODOLOGY AND STANDARDS

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

- We interviewed District officials and employees to gain an understanding of payroll procedures and internal controls over payroll processes.
- We reviewed payroll policies, CBAs, employment contracts, personnel files, pay rate tables, time and attendance records, benefits source documents and bank statements.
- We used CAATs to review the District's employee compensation and benefits transactions. We obtained various data sets from the District's computerized financial database and then performed tests on them using specialized software to identify anomalies and high-risk transactions. Specifically:
  - o We performed various audit procedures to verify that employees paid were actual employees. These procedures included identifying and verifying employee Social Security numbers to the Social Security death master file; employee addresses outside of a 45-mile radius; employee addresses with post office boxes or no address; employees with the same name, address or phone number; any payroll checks with the same check number; any duplicate employee Social Security numbers; and employees using the same bank.
  - o To verify the accuracy of compensation paid to employees, we verified that all employees paid the appropriate Social Security and Medicare taxes, that all payments made prior to official hire dates were appropriately paid to valid employees and that all payments made to employees through the check register agreed with amounts reported on W-2 forms.
  - o We performed various audit procedures to verify the appropriateness of certain payroll payments to employees. These procedures included reviewing and verifying the following: compensation paid to certain employees and key officials; rounded payroll payments and balloon payments; checks written to employees who received more than 26 during a fiscal year; selected checks issued on dates that were not scheduled pay dates; payments made to employees after the termination date; longevity payments, sick leave incentives and education and continuing education bonuses; separation payments, health insurance buyouts and vacation leave buy-back payments; and overtime compensation paid to employees.
  - o We compared the employees' salary rates with Board-approved salary schedules (including stipends) and traced the amounts to the CBAs and employment contracts.
  - o We verified the accuracy of health, dental and other insurance withholdings and the eligibility of employees receiving such benefits.

- o We performed data reliability tests, which included looking for manual and voided checks, verifying employee direct deposits with the bank and following up on gaps in payroll check sequence numbers.

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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