



# Westport Central School District

## Internal Controls Over Payroll

### Report of Examination

Period Covered:

July 1, 2012 — October 31, 2013

2014M-13



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**

April 2014

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 Westport Central School District, entitled Internal Controls Over 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 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 Westport Central School District (District) is located in the Towns of Elizabethtown, Essex, Lewis, Moriah and Westport in Essex County. The District is governed by the Board of Education (Board) which comprises five 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 day-to-day management of the District under the direction of the Board.

The District has one school in operation with 225 students and 50 full- and part-time employees. The District's budgeted expenditures for the 2013-14 fiscal year were \$5.5 million, which were funded primarily with State aid, real property taxes and grants. Payroll and associated employee benefit costs represent a significant portion of the District's annual expenditures. For the 2012-13 fiscal year, these costs totaled approximately \$3.8 million, or about 71 percent of the District's total general fund expenditures of \$5.3 million.

## Objective

The objective of our audit was to determine if the District established effective internal controls over payroll. Our audit addressed the following related question:

- Are internal controls over payroll appropriately designed and operating effectively to adequately safeguard District assets?

## Scope and Methodology

Our overall goal was to assess the adequacy of the internal controls put in place by officials to safeguard District assets. To accomplish this, we performed an initial assessment of the internal controls so that we could design our audit to focus on those areas most at risk. Our initial assessment included evaluations of the following areas: financial oversight, cash receipts and disbursements, purchasing, and payroll and personal services. Based on that evaluation, we determined that controls appeared to be adequate and limited risk existed in most of the financial areas we reviewed. We did determine that risk existed in the payroll area and, therefore, examined internal controls over payroll for the period July 1, 2012 through October 31, 2013.

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 is included in Appendix B of this report.

## **Comments of District Officials**

The results of our audit have been discussed with District officials and their comments, which appear in Appendix A, have been considered in preparing this report. District officials agreed with our findings.

## Payroll

The Board is responsible for designing a system of internal controls over the District's payroll process. Internal controls consist of written Board authorization for salaries, wages and fringe benefits. District-wide policies, collective bargaining agreements and individual employee contracts must stipulate each employee's entitlement to the accrual and use of leave time. An effective system of internal controls can provide assurance that employees are paid and provided benefits in accordance with contract provisions and that transactions are appropriately recorded and authorized by management. In addition, a good system of internal controls over payroll would include both effective managerial oversight and a proper segregation of duties. Where practicable, duties should be separated so that one employee does not control all phases of the payroll process. When complete segregation of duties is not possible, active supervision and oversight becomes even more important. Failure to establish and adhere to a sound system of internal controls increases the risk that fraud, abuse or errors may occur and go undetected and uncorrected.

As with all school districts, payroll and fringe benefits represent a large portion of the District's annual budget. Salaries and wages, including overtime and employee benefit costs, totaled approximately \$3.8 million,<sup>1</sup> or 71 percent of the District's general fund expenditures for the 2012-13 fiscal year. The significant costs involved highlight the importance of good internal controls in this area.

We found that District officials established adequate internal controls over payroll. District officials implemented specific procedures to ensure that individuals reported and paid on the payrolls were paid at their approved salaries and wages and that they received only the benefits to which they were entitled.

We also determined that the various control procedures over the District's payroll process provided adequate supervision and oversight. Specifically, the Board approves the hiring of all new employees and accepts all resignations and retirements before any changes to payroll are made. The District Clerk (Clerk) records all employee salaries, wages, resignations and retirements, along with their effective dates, in the Board minutes. The District has contracted with the Franklin-Essex-Hamilton Board of Cooperative Educational Services (FEH) to provide payroll services for the District. The District's payroll is processed at FEH's Malone office. FEH enters all new District

<sup>1</sup> \$2,226,235 in salaries and \$1,530,762 in employee benefits such as healthcare and pension costs are included.

employee information and salaries into the payroll system, inactivates payments to employees who resign or retire, enters all time sheet information<sup>2</sup> into the payroll system and processes the payroll based on District-provided information.

The District also contracts with FEH for the services of the District Treasurer (Treasurer). This individual is a FEH employee and works from FEH's Saranac Lake office. The Treasurer reviews the completed payroll prior to electronically signing the employees' payroll checks. The Treasurer signs the checks electronically by entering a password into the payroll system to generate her signature. The signed checks are then printed out at the FEH location in Malone and sent to the District by courier. The District's department heads review and approve all timesheets, and the Clerk reviews all timesheets and all leave requests for accuracy. The Superintendent reviews and certifies all payrolls and approves all leave requests, which provides a final managerial oversight of the payroll process by the District.

We tested District records<sup>3</sup> to determine if officers and employees were paid and received benefits according to their respective employment or collective bargaining agreements. We examined the records for two payrolls of 10 employees with gross pay totaling \$33,565 in the 2012-13 fiscal year and 10 employees with gross pay totaling \$17,787 in the 2013-14 fiscal year to ensure that salaried and hourly employees were paid at their approved rates and that a designated officer reviewed and certified the payrolls. We also reviewed the records for five employees paid in one 2013-14 fiscal year payroll, which collectively totaled \$7,412, to ensure that the salaries were paid in accordance with Board approved contracts. In addition, we reviewed five employees with the highest balloon payments<sup>4</sup> for the June 21, 2013 pay period, which collectively totaled \$85,879, and verified that the balloon payments were accurately calculated. All payments tested were supported by District employment agreements and correctly calculated.

In order to further verify that the internal controls over payroll in place are functioning properly, we examined 10 timesheets to verify that they were approved by the respective District department heads and calculated correctly. We found no exceptions from our testing. Finally, we selected 10 employees from the 2013-14 fiscal year to

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<sup>2</sup> This would include all hours worked (e.g., regular, extra and overtime) for all hourly District staff.

<sup>3</sup> See Appendix B, Audit Methodology and Standards, for details of our testing methodology.

<sup>4</sup> A balloon payment is a lump sum payment an employee receives at the end of the school year in exchange for receiving a reduced amount of their annual salary in their bi-weekly paychecks throughout the school year.

ensure leave request forms were filled out as required and that the correct leave types and amounts were deducted from the employees' leave accruals. For the same employees, we also reviewed the leave accruals earned for the 2013-14 fiscal year to determine if the correct days were credited. In each instance, District officials properly approved, recorded and credited leave accruals.

We found that the District's controls over payroll were appropriately designed and operating effectively to safeguard District assets.



## **APPENDIX A**

### **RESPONSE FROM DISTRICT OFFICIALS**

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



## WESTPORT CENTRAL SCHOOL

Alice W. LaRock, *President*  
James R. Carroll, *Vice President*  
Thomas D. Kohler  
Dwayne P. Stevens  
Suzanne B. Russell

25 Sisco Street  
Westport, NY 12993  
On Lake Champlain  
(518) 962-8244  
FAX (518) 962-4571

John W. Gallagher, Ed.D.  
*Superintendent of Schools*  
Michele M. Friedman  
*Principal*  
Cynthia Moody, *Treasurer*  
Jana Atwell, *Clerk*

April 3, 2014

[REDACTED]  
NYS Office of the State Comptroller  
Division of Local Government and School Accountability  
One Broad Street Plaza  
Glens Falls, NY 12801

Dear [REDACTED]

This letter is in response to the audit conducted by your office and to the exit meeting held on March 17, 2014.

We were pleased that your auditor found that the District's controls over payroll are appropriately designed and operating effectively to safeguard district assets.

The District wishes to commend the auditors for their professionalism during this process.

Sincerely,

John W. Gallagher/Ed.D.  
Superintendent

CC: Cindy Moody, District Treasurer

## **APPENDIX B**

### **AUDIT METHODOLOGY AND STANDARDS**

Our overall goal was to assess the adequacy of the internal controls put in place by District officials to safeguard District assets. To accomplish this, we performed an initial assessment of the internal controls so that we could design our audit to focus on those areas most at risk. Our initial assessment included evaluations of the following areas: financial oversight, cash receipts and disbursements, purchasing, and payroll and personal services.

During the initial assessment, we interviewed appropriate District officials, performed limited tests of transactions and reviewed pertinent documents, such as District policies and procedures manuals, Board minutes, and financial records and reports. In addition, we obtained information directly from the computerized financial databases and analyzed it electronically using computer-assisted techniques. This approach provided us with additional information about the District's financial transactions as recorded in its databases. Further, we reviewed the District's internal controls and procedures over the computerized financial databases to help ensure that the information produced by such systems was reliable.

After reviewing the information gathered during our initial assessment, we determined where weaknesses existed and evaluated those weaknesses for the risk of potential fraud, theft or professional misconduct. Based on that evaluation, we determined that controls appeared to be adequate and limited risk existed in most of the financial areas we reviewed. We then decided on the reported objectives and scope by selecting for audit those areas most at risk. We selected payroll and personnel services for further audit testing.

During the audit, we examined the payroll records and reports for the period July 1, 2012 through October 31, 2013. To accomplish the objective of the audit and obtain valid audit evidence, our procedures included the following steps:

- We interviewed and observed appropriate District officials and employees to learn about the procedures used to process payrolls.
- We reviewed Board meeting minutes.
- We reviewed collective bargaining agreements and individual employee contracts for our audit period to ensure that salary payments were properly authorized and in accordance with the agreements.
- We reviewed all pertinent payroll records.
- We judgmentally selected five employees with the highest balloon payments for the June 21, 2013 payroll date. This payroll date was selected because it was the last payroll date in the 2012-13 fiscal year that included instructional staff.

- We judgmentally selected two payroll periods from fiscal year 2012-13 (January 4, 2013 and June 21, 2013).<sup>5</sup> We randomly selected five employees to test the payroll dated January 4, 2013 and five other employees to test the payroll dated June 21, 2013 to determine if their bi-weekly salaries were accurate, calculated correctly and paid in accordance with Board approved rates.
- We judgmentally selected two payroll periods from fiscal year 2013-14 (July 19, 2013 and October 25, 2013).<sup>6</sup> We randomly selected five employees to test the payroll dated July 19, 2013 and five other employees to test the payroll dated October 25, 2013 to determine if their bi-weekly salaries were accurate, calculated correctly and paid in accordance with Board approved rates.
- We judgmentally selected five employees to include the Principal, two hourly bus drivers and two hourly cafeteria workers for the October 25, 2013 payroll period to determine if their bi-weekly salaries were accurate, calculated correctly and paid in accordance with Board approved rates. The judgmental selection of employees included the Principal, who certified the District's payroll in the Superintendent's absence, and four hourly employees because we did not test any hourly bus drivers and cafeteria workers in our random sample. In addition, we selected the October 25, 2013 payroll period because it was the last payroll period in our audit scope period.
- We judgmentally selected one payroll period from fiscal year 2012-13 (January 4, 2013) and one payroll period from fiscal year 2013-14 (October 25, 2013).<sup>7</sup> For each payroll, we randomly selected five employees to determine if timekeeping documentation was mathematically correct and properly approved. However, our random sample only generated one employee who was required to fill out timekeeping documentation, and this was for the January 4, 2013 payroll. Therefore, we judgmentally selected two hourly bus drivers and two hourly cafeteria workers for the January 4, 2013 payroll, and we judgmentally selected two hourly bus drivers and three hourly cafeteria workers for the October 25, 2013 payroll.
- We judgmentally selected two payroll periods from fiscal year 2012-13 (January 4, 2013 and June 21, 2013)<sup>8</sup> and two payroll periods from fiscal year 2013-14 (July 19, 2013 and October 25, 2013).<sup>9</sup> For each payroll, we randomly selected five employees. From this random selection of 20 employees, we sorted the employees in alphabetical order by last name. We judgmentally selected the first 10 employees to ensure that leave request forms were filled out as required and that the correct leave types and amounts were deducted from the employees' leave accruals. For the same employees, we also reviewed the leave accruals earned for the 2013-14 school year to determine if the correct days were credited.

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<sup>5</sup> We judgmentally selected the payroll dates to include middle and end of the fiscal year payroll dates.

<sup>6</sup> We judgmentally selected the payroll dates to include pay dates in the beginning of the fiscal year and at the end of our audit scope period.

<sup>7</sup> We judgmentally selected the January 4, 2013 payroll because it was in the middle of fiscal year 2012-13 and we judgmentally selected the October 25, 2013 payroll because it was the last payroll in our audit scope period.

<sup>8</sup> We judgmentally selected the payroll dates to include a middle and an end of the fiscal year payroll dates.

<sup>9</sup> We judgmentally selected the payroll dates to include pay dates in the beginning of the fiscal year and at the end of our audit scope period.

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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