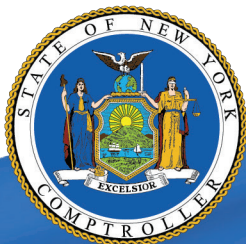


Stillwater Central School District

Payroll

OCTOBER 2017



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

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Report Highlights

Stillwater Central School District

Audit Objective

Determine whether District employees received only the salaries and benefits they were entitled to.

Key Findings

- The Treasurer's salary was overpaid by \$1,089.
- The Treasurer was paid for leave time she was not entitled to valued at \$4,070.

Key Recommendation

- Continue to develop and implement procedures to ensure employees receive only the salaries and benefits they are entitled to.

District officials generally agreed with our recommendations and indicated they planned to initiate corrective action.

Background

The Stillwater Central School District (District) is located in the counties of Saratoga, Rensselaer and Washington.

The District is governed by a Board of Education (Board) which is composed of nine elected members. The Board is responsible for the management of the District's financial and educational affairs. The Superintendent of Schools (Superintendent) is the chief executive officer and is responsible, along with other administrative staff, for the day-to-day management of the District under the Board's direction.

Quick Facts

Students	1,082
Employees	190
2016-17 Budgeted Appropriations	\$23.9 million

Audit Period

July 1, 2015 - January 31, 2017. We expanded the scope back to 2007-08 to review the Treasurer's salary and leave accruals.

Payroll

How Should the District Ensure That Employees are Paid Accurately and Receive Only the Leave Time Benefits They are Entitled To?

Employee compensation and benefits are generally the most significant annual expenditures incurred by school districts. The Board should approve employee compensation and benefits through collective bargaining agreements (CBAs), individual employee contracts and Board resolutions. A well-designed system provides for the segregation of duties, clear and specific guidance and an oversight and review process to ensure that salary and leave accrual information is entered accurately into the system so that employees will be paid the salaries and receive the benefits authorized by the Board.

Employees Were Paid More Than Their Approved Salaries

We reviewed payroll records for 25 employees and found that 22 employees were paid the salaries they were entitled to. However, three employees were overpaid by \$1,433 during the audit period.

This occurred because the Board did not establish the terms and conditions of employment or authorize specific salaries for several years for the three employees. In addition, the Treasurer functioned as the payroll clerk and was responsible for processing payroll and entering the annual salary information, including pay increases, into the payroll system. However, the Treasurer entered the information with no oversight or review process to detect errors.

As a result, the Treasurer received unauthorized salary payments of \$1,089, as follows:

- For 2015-16, the Treasurer's base salary for payroll clerk duties¹ was \$46,306 but she paid herself \$46,889, resulting in an over payment of \$583.
- For 2015-16, the Treasurer's Board-approved stipend for Treasurer's duties was \$6,903 but she paid herself \$7,075, resulting in an overpayment of \$172.
- For 2015-16, the Treasurer's Board-approved stipend for extra-classroom activity fund duties² was \$2,156 but she paid herself \$2,300, resulting in an overpayment of \$144.
- For 2016-17 up until the time she resigned in January 2017, the Treasurer's base salary for payroll duties was \$21,799, but she paid herself \$21,989, resulting in an overpayment of \$190.

1 The last time the Board established a specific salary for the Treasurer's role as the payroll clerk was 2007-08. At that time, the Board established the salary at \$31,755 and has since provided annual percentage increases ranging from 2 percent to 6 percent.

2 The Treasurer also served as the central treasurer for the District's extra-classroom activity funds.

In addition, for 2015-16, the Treasurer overpaid the Superintendent's secretary by \$198 and the attendance clerk by \$146. These overpayments, as well as the overpayments that the Treasurer received, were all a result of the Treasurer inaccurately inputting annual raises into the payroll system as 2.4 percent instead of 2 percent.

Employees Generally Received the Leave Accruals They Were Entitled To

We reviewed leave records for 25 employees and found that 24 employees received and used leave time in accordance with their CBAs or employment agreements. However, the Treasurer received, used and was paid for leave time she was not entitled to valued at \$4,070.

This occurred because the Board did not provide clear and specific guidance concerning the terms and conditions of employment for all employees, including salary and benefits. In addition, District officials did not review the leave accrual balances paid to the Treasurer on her departure for accuracy.

A July 2001 letter from a former Superintendent stated that the Treasurer's benefits would follow one of the District's CBAs. That practice has remained in effect since 2001. The CBA states that employees cannot carry unused vacation leave as of the end of the fiscal year to the subsequent year unless there is written permission from the Superintendent. However, the Treasurer carried over her unused vacation leave to subsequent years without written permission from the Superintendent. As a result, the Treasurer received, used and was paid for leave time she was not entitled to as follows:

- For 2010-11, 2011-12 and 2012-13, the Treasurer used 1.56, .91 and 4.50 more days than she was entitled to, resulting in an unentitled benefit of \$1,276.
- For 2013-14 and 2014-15, the Treasurer used .50 and 4 more days than she was entitled to, resulting in an unentitled benefit of \$900.
- Upon her departure in 2017, the District and Treasurer entered into an agreement to pay the Treasurer for unused vacation leave. The District paid the Treasurer for the 19.12 days valued at \$3,503 that she had recorded in the records as of December 2016. However, the Treasurer's accruals should have been 8.75 days valued at \$1,609 resulting in an overpayment of \$1,894.

At the time of our audit, the Board, Superintendent and business manager began to implement the following procedures to improve the accuracy of pay and leave benefits provided to employees:

-
- District officials ensured that all District employees' terms and conditions of employment were covered under written agreements.
 - District officials segregated duties by hiring an employee to perform human resources duties, designating a different business office employee to perform payroll preparation duties and designating the business manager as the Treasurer.
 - The Superintendent initiated procedures for recording time worked, requesting to use leave time and recording leave accruals.

What Do We Recommend?

The Board should:

1. Ensure all employees are covered under written agreements.

District officials should:

2. Continue to develop and implement procedures to ensure employees receive only the salaries and benefits they are entitled to.
3. Periodically review leave time balances for accuracy and correct any identified errors.

Appendix A: Response From District Officials

Stillwater Central School District Patricia Morris, Superintendent

September 26, 2017

1068 Hudson Avenue
Stillwater, NY 12170

Jeffrey P. Leonard, Chief Examiner
Office of the State Comptroller
One Broad Street Plaza
Glens Falls, NY 12801-4396

Mr. Leonard:

Please accept this as the written response to the OSC Audit Report (the "Report") for the Stillwater Central School District (the "School District"). This response summarizes the School District's position(s) concerning the findings and recommendations set forth in the Report. The School District clearly understands the Report's objective to "[d]etermine whether District employees received only the salaries and benefits they were entitled to." In addition to the primary objective, it was noted in the exit conference that multiple other business operations were audited, including: cash receipts/ disbursements/ purchasing, Information Technology and extracurricular fund activity and other financial operations.

The Report contains two "key findings"; the first being that *"the Treasurer's salary was overpaid by \$1,089.00"*, and the second that *"the Treasurer was paid for leave time she was not entitled to valued at \$4,070.00."* In response to both findings, the School District concurs with the draft audit statement in that, "a well-designed system provides for the segregation of duties, clear and specific guidance and an oversight and review process to ensure that salary and leave accrual information is entered accurately into the system." The Report also correctly notes the following:

[a]t the time of our audit, the Board, Superintendent and business manager began to implement the following procedures to improve the accuracy of pay and leave benefits provided to employees:

- District officials ensured that all District employees' terms and conditions of employment were covered under written agreements.

Stillwater Central School District

Patricia Morris, Superintendent

- District officials segregated duties by hiring an employee to perform human resources duties, designating a different business office employee to perform payroll preparation duties and designating the business manager as Treasurer.
- The Superintendent initiated procedures for recording time worked, requesting use of leave time and recording leave accruals.

Upon assuming the position of Superintendent of Schools in July, 2016, I contacted the School District's legal counsel to draft employment agreements for all School District employees who did not already have a separate agreement or who were not already covered under a collective bargaining agreement. Among other things, these employment agreements clearly set forth all terms and conditions of employment, including but not limited to terms and conditions relating to compensation.

The School District also recognizes the need for appropriate controls, including but not limited to the segregation of duties. To that end, the School District undertook an independent "Business Office Operations Study" in the fall of 2016, which highlighted the need for the aforementioned delineation of duties. As a result of those findings, a Junior Accountant was hired, as well as a part time payroll clerk and human resource specialist.

As Superintendent, I worked collaboratively with our Business Manager to define procedures for accurately and promptly recording time worked, requesting leave time, and recording leave accruals. We defined the expectation that employees seek and receive prior consent before paid extra time/overtime was charged. In addition, we ensured that business office employees record their day-to-day critical job functions so that, if necessary, the office can continue to function properly and efficiently in the absence of any individual. The Business Manager and I determined the need to establish such protocols in the early fall of 2016 and they were in place at the time of the audit.

While the Report indicates that employees were paid more than their approved salaries because "*the Board did not establish the terms and conditions of employment or authorize specific salaries*", I would like to note that the current Board of Education has fully supported the establishment of term agreements, authorization of specified salaries, the segregation of duties (including the hiring of additional business office staff), and the definition of specific protocols and controls.

The Report makes the following recommendations to the Board of Education:

- 1) *Ensure all employees are covered under written agreements.*

Stillwater Central School District

Patricia Morris, Superintendent

RESPONSE: This has been effectuated and is in place for the 2017-2018 fiscal year for all District employees.

The Report makes the following recommendations to School District officials:

- 1) *Continue to develop and implement procedures to ensure employees receive only the salaries and benefits they are entitled to.*

RESPONSE: The School District will continue to follow the record-keeping protocols and procedures that are now in place and will continue to look for ways to ensure checks-and-balances across job functions.

- 2) *Periodically review leave time balances for accuracy and correct any identified errors.*

RESPONSE: The School District has established new time sheets for the business office and other departments based on the auditor's suggestion. This allows for a simpler process to review and cross-reference accruals and time usage. In addition, each employee now logs into the BOCES AESOP system for leave time which provides the School District another way to account for and ensure the accuracy of accruals and time usage.

I respectfully request that this written response also serve as the Stillwater Central School District's Corrective Action Plan.

Thank you for your time,

Patricia Morris
Superintendent of Schools
Stillwater Central School District

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, we performed the following audit procedures:

- We interviewed District officials to understand the payroll process.
- We reviewed CBAs, individual contracts and meeting minutes to obtain information about salaries and benefits provided to employees.
- We traced the payroll registers, check registers and direct deposit data to bank records to determine whether the amounts agreed.
- We judgmentally selected 25 employees to provide a representative sample of employees working in diverse positions – administrative, teaching and non-teaching – to determine whether they were working under the terms and conditions of formal agreements and whether they received the salaries, wages and benefits to which they were entitled.
- We compared employees' pay records to Board-approved salaries and wages to determine whether the employees received the salaries and wages they were entitled to.
- We compared the employees' compensated absence records to the Board-approved benefits.

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

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 2116-1(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 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. We encourage the Board to make the CAP available for public review in the Clerk's office.

Appendix C: Resources and Services

Regional Office Directory

www.osc.state.ny.us/localgov/regional_directory.pdf

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

www.osc.state.ny.us/localgov/costsavings/index.htm

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

www.osc.state.ny.us/localgov/fiscalmonitoring/index.htm

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

www.osc.state.ny.us/localgov/pubs/listacctg.htm#lmgm

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

www.osc.state.ny.us/localgov/planbudget/index.htm

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

www.osc.state.ny.us/localgov/lgli/pdf/cybersecurityguide.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/localgov/finreporting/index.htm

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

www.osc.state.ny.us/localgov/researchpubs/index.htm

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

www.osc.state.ny.us/localgov/academy/index.htm

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