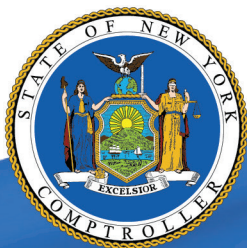


Solvay Union Free School District

Payroll

FEBRUARY 2018



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

Contents

Report Highlights 1

Payroll. 2

 How Does a District Accurately Pay Employees’ Salaries and
 Benefits? 2

 Compensation Paid Was Accurate. 2

 Calculations for Benefits Provided Contained Errors 3

 What Do We Recommend? 4

Appendix A – Response From District Officials 5

Appendix B – Audit Methodology and Standards 6

Appendix C – Resources and Services. 8

Report Highlights

Solvay Union Free School District

Audit Objective

Determine whether District officials ensured the accuracy of compensation paid and benefits provided to employees.

Key Findings

- We tested salaries paid to 30 employees for the 2015-16 year, totaling \$1.5 million, and various other payroll payments. Except for some minor discrepancies, which we discussed with District officials, the employee salaries and wages reviewed were accurately paid.
- We found errors in the District's calculation of 403(b) matching contributions and in the employee-paid portion of health and dental insurance premiums. These errors could result in \$2,898 in overpayments and \$1,091 in underpayments by the District for 2016-17.

Key Recommendations

District officials should:

- Implement review procedures to ensure benefits are accurate.
- Consider directing the District's legal counsel to review the excess matching contributions and take appropriate actions to recoup them, and reimburse under-contributed amounts.

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

Background

Solvay Union Free School District (District) is located in the Towns of Geddes and Camillus, in Onondaga County.

The District is governed by a five-member Board of Education (Board). The Board is responsible for the general management and control of the District's financial affairs. The Superintendent of Schools (Superintendent) is the District's Chief Executive Officer and is responsible, along with other administrators and staff, for the District's day to day management under the Board's direction. The Assistant Superintendent for Business Administration (Assistant Superintendent) oversees the District's business operations.

Quick Facts

Employees	375
2016-17 Enrollment	1,493
2016-17 Budgeted Appropriations	\$32.4 million
Gross Payroll During Audit Period	\$22.1 million

Audit Period

July 1, 2015 - January 30, 2017

Payroll

Payroll and benefits represent a significant portion of the District's annual expenditures (69 percent). As such, District officials must ensure employee compensation is made according to Board authorizations. The Board approved four collective bargaining agreements (CBAs) and 13 individual employment contracts. Together, they cover all District employees. The CBAs and contracts set forth the salaries and benefits to be paid.

How Does a District Accurately Pay Employees' Salaries and Benefits?

District officials should establish clear procedures for staff to follow and implement adequate monitoring procedures to verify that payments are accurate. A well-designed payroll processing system can provide assurance that employees are paid in accordance with Board authorizations. For example, payroll duties should be segregated so that no one person controls all phases of a transaction. In addition, management should review payroll activities to ensure that compensation and benefits provided are properly authorized and documented so that employees receive only the amounts to which they are entitled.

Compensation Paid Was Accurate

District officials have effectively ensured the accuracy of employee salaries and wages paid by instituting comprehensive practices for processing and verifying payroll payments.

The Board authorizes new employees, the Superintendent's secretary creates employee payroll profiles in the payroll system, the payroll clerk enters employee salaries, and the Assistant Superintendent reviews pay rates each year. Timekeeping and payroll procedures also go through multiple levels of review during the process. District procedures require the payroll clerk to process payroll and the Treasurer to sign paychecks and review direct deposits. Supervisors review employee timecards, including any overtime. The Assistant Superintendent reviews and the Superintendent certifies the payroll each pay period. This provides adequate segregation of duties for the payroll process.

We examined annualized salaries paid to 30 employees for the 2015-16 year, totaling \$1.5 million, to determine whether salaries were paid according to the respective individual employment contracts or CBAs (Figure 1). We also examined wages paid to 16 substitute employees for two months, totaling \$13,669, to determine whether employees were paid their appropriate pay rates and that time worked agreed with supporting documentation (e.g., time cards, attendance sheets).

Figure 1: Employees Tested by Job Category

Job Category	Number Tested	Gross Pay
Teachers	14	\$743,308
Administrators	4	\$447,853
Non-Instructional Staff	12	\$313,819
Total	30	\$1,504,980

In addition, using a combination of computer-assisted auditing techniques and manual procedures, we reviewed the payroll records to identify non-routine transactions. This included payments for various things such as stipend, advanced degree, longevity and separation payments. We obtained and reviewed supporting documentation to determine whether the payments were appropriate.

Except for some minor discrepancies, which we discussed with District officials, the employee salaries and wages reviewed were accurately paid. This is likely due to the District's strong control procedures over its payroll process.

Calculations for Benefits Provided Contained Errors

According to the CBAs and individual contracts, the District provides matching contributions to certain employees' qualified 403(b) retirement accounts and pays a share of health and dental insurance premiums. Employees may make contributions to their 403(b) retirement accounts and the District will match those contributions up to a certain percentage of the employee's salary (amounts vary by contract). The District's share of health and dental premiums also varies based on the applicable CBA or contract, and whether the employee enrolls in individual or family coverage. The employee is responsible for paying the balance of the premiums, which is done through payroll deductions for active employees and quarterly billings for retirees.

Based on the relevant CBA or contract, the payroll clerk calculates matching 403(b) contributions and the employer/employee share of health and dental insurance premiums. The Treasurer reviews and tracks health and dental insurance amounts throughout the year. Likewise, for retirees that remain on the District health and/or dental insurance, the payroll clerk calculates their share, and the Treasurer reviews it and sends quarterly bills to the retirees. However, the 403(b) calculations are not routinely reviewed and tracked. We found instances where District staff made incorrect contributions to employee 403(b) accounts and made errors calculating the employee/retiree share of health and dental premiums.

The District paid \$114 more for 403(b) matching for 14 employees during a sample pay period we tested in December 2016. Over 20 pay periods in the year,¹ this could result in \$2,270² of District overpayments for 2016-17. This happened primarily because the payroll clerk checked the matching amounts when the employees first started contributing to ensure the amount matched did not exceed the amount allowable in employee contracts. However, she did not routinely re-check matched amounts when the employees received raises. As a result, the District's matching contributions for 12 employees were more than the employees' contributions. For the other two employees, the District contributed at rates different than what was included in the employees' contracts. For example, the District's percentage of salary contributed for one of these employees was 1.25 percent instead of the .75 percent rate included in the contract. District officials told us that the contracts included incorrect matching rates, and that the matching rate the District paid was what it intended to pay.

The District also contributed about \$55 too little for seven administrators during the December 2016 pay period we tested. Over 20 pay periods, this could amount to \$1,091³ in District underpayments for 2016-17. In this case, the District contributed 1.35 percent of the employees' salary, but the contract states a matching limit of 1.5 percent. These errors occurred because there was no review or monitoring process to ensure the accuracy of District 403(b) contributions.

In addition, we found errors with health and dental insurance contributions totaling \$628. The District made payroll deductions for two administrators' health insurance premiums that were less than required by their CBA and under-billed retirees for dental insurance for the month of December 2016. Both errors occurred despite having a review process in place for health and dental benefits.

What Do We Recommend?

District officials should:

1. Implement review procedures to ensure that payments for 403(b), health and dental insurance benefits are in accordance with contracts, and that the related employee deductions and retiree billings are accurate.
2. Review the excess District contributions identified in this report and consider directing the District's legal counsel to take appropriate action to recover the funds. The Board should also reimburse employees the underpaid amounts.

1 The employee deductions and employer contributions were made over 20 pay periods.

2 \$113.51 per pay period times 20 pay periods equals \$2,270.20.

3 \$54.54 per pay period times 20 pay periods equals \$1,090.80.

Appendix A: Response From District Officials

SOLVAY SCHOOLS

Solvay Union Free School District
Office of the Board of Education
PO Box 980
Syracuse, NY 13209 – 0980
PHONE: (315) 468-1111
FAX: (315) 468-2755
www.solvayschools.org

JAY TINKLEPAUGH
Superintendent of Schools
(315) 468-1111

ERIC D. LARISON
Assistant Superintendent
for Instruction
(315) 468-1111

KAREN HENRY
Assistant Superintendent
for Business
(315) 468-4942

January 22, 2018

Rebecca A. Wilcox, Chief Examiner
Office of the State Comptroller
333 East Washington Street
Syracuse, NY 13202

Re: Audit 2017M-257 Payroll

Dear Ms. Wilcox:

The Solvay Union Free School District acknowledges receipt of the audit report conducted by your office for the time period of July 1, 2015 – January 30, 2017. The District has reviewed and verified the findings and agrees with the findings identified in the report. The Board of Education, Administration and Staff involved in the audit process appreciate the professionalism and assistance received during the audit. This letter serves as both an audit response and the required corrective action plan.

The key recommendations and the District's corrective action plan are as follows:

1. Implement review procedures to ensure benefits are accurate.

CORRECTIVE ACTION: The District implemented a procedure to ensure that payments for 403b, health and dental insurance benefits are in accordance with the contracts and that related employee deductions and retiree billings are accurate. The Treasurer now verifies the District match for 403b, benefit deductions for health and dental insurance and rates for retiree billings monthly.

2. Consider directing the District's legal counsel to review the excess matching contributions and take appropriate actions to recoup them, and reimburse the under-contributed amounts.

CORRECTIVE ACTION: The District has reached out to counsel and will take appropriate action to recoup the excess matching contributions. The District has already reimbursed the seven administrators for the underpaid amounts by making the additional contribution to their 403b.

Other actions taken:

- The District made the additional matching contribution for the seven administrators
- The additional health insurance premium for the two administrators was collected for 16/17
- The dental premium for the two retirees is now adjusted each January for the change in premium effective the prior December

Please feel free to contact us should you have any additional questions or concerns.

Sincerely,



Stephen Zalewski
Board President



Jay Tinklepaugh
Superintendent



Karen Henry
Assistant Superintendent for Business

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.

We used computer-assisted auditing techniques (CAATs) to compile the District's electronic payroll data, analyze it and perform several different tests with it. The overall population of our data included 514 employees (all paid employees including substitutes) who received payroll disbursements for the period July 1, 2015 through January 30, 2017 totaling \$22 million. If CAATS identified any high risk payroll transactions or exceptions, the audit team followed up with District officials to determine the reasons and documented the support. When it was not possible or practical to use CAATs procedures to test a given area of payroll, the audit team performed manual sample-based audit tests. To achieve the audit objective and obtain valid audit evidence, we performed the following audit procedures:

- We interviewed District officials and employees to gain an understanding of the procedures used to process and monitor payroll.
- We examined all relevant employment contracts and CBAs and interviewed officials to gain an understanding of the benefits that the District provides to employees and retirees, and the processes used to administer these contracts.
- We tested for possible ghost employees⁴ by using CAATs tests and traced identified potential ghost employees to personnel files to determine whether they were actual employees.
- We tested the accuracy of compensation for 30 employees by tracing the salary amounts paid to them in 2015-16 to Board-authorized amounts. We judgmentally selected 10 employees who were key officials and employees, and randomly selected 20 other employees.
- We tested the accuracy of per diem compensation paid to 16 employees over two randomly selected months. We traced time worked to approved time cards and attendance sheets, and traced pay rates to the related CBAs and Board minutes. We judgmentally selected one employee that had the same last name as a key official, and randomly selected 15 additional employees.
- We tested stipends, advanced degree payments and longevity payments for accuracy and appropriateness by tracing amounts to Board-approved contracts and supporting documentation (e.g., appointments, educational certificates, hire dates).

⁴ Ghost employees are names of individuals that are present in the payroll system, but the individuals do not actually work for the District.

-
- We determined whether high risk payments were documented, supported and appropriate. We traced these payments to supporting documentation.
 - We tested the accuracy of overtime payments by tracing overtime hours to approved time cards, and tracing pay rates to contracts, CBAs or Board resolutions. We examined the largest overtime payments made to the top five overtime earners.
 - We determined the accuracy and appropriateness of separation payments (sick leave pay outs and retirement incentives) by tracing amounts paid to supporting documentation, including Board-authorized contracts and CBAs.
 - We compared health and dental insurance bills to payroll deductions and billed amounts for a test month to determine the accuracy of District and employee contributions. We judgmentally selected that month with no expectation of more or fewer errors than any other month (no known biases).
 - We determined the accuracy of all 403(b) matching contributions made by the District to employees for one pay period. We selected that pay period with no known biases. We compared the 403(b) matching contributions made by the District to amounts authorized by the Board in CBAs and individual contracts.

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 District 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

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.state.ny.us

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

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.state.ny.us

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