



Nanuet Union Free School District

Payroll

Report of Examination

Period Covered:

July 1, 2014 — July 27, 2015

2015M-287



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State of New York Office of the State Comptroller

Division of Local Government and School Accountability

December 2015

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 Nanuet Union Free School District, entitled 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 New York State 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 Nanuet Union Free School District (District) is located in the Town of Clarkstown in Rockland County. The District is governed by the Board of Education (Board) which is composed of seven 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 District management under the Board's direction. The Director of Facilities is in charge of maintaining the District's school buildings and grounds and supervises a staff of 41 custodians, groundskeepers and maintenance mechanics.

The District operates five schools with approximately 2,280 students and 420 employees. The District's budgeted appropriations for the 2014-15 fiscal year were \$66,490,022, which were funded primarily with real property taxes and State aid.

Objective

The objective of our audit was to evaluate internal controls over payroll. Our audit addressed the following related question:

- Did District officials properly manage overtime and ensure payroll was accurately processed?

Scope and Methodology

We examined the internal controls over the District's payroll function for the period July 1, 2014 through July 27, 2015. We extended our scope back to July 1, 2013 to analyze the trend in overtime payments the District incurred.

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.

Payroll

Salaries and wages, including overtime and employee benefit costs, totaled approximately \$45 million, or 68 percent, of the District's general fund expenditures for the 2014-15 fiscal year. The Board is responsible for designing a system of internal controls over the District's payroll process. An effective system of internal controls can provide assurance that employees are paid and provided benefits in accordance with contract provisions and authorized by management. Written payroll procedures can help control the use of overtime and provide assurance that employees are accurately paid for time worked.

The District's overtime costs have risen from approximately \$428,000 to \$591,400, or 38 percent, over the last three fiscal years due a lack of effective controls and oversight. District officials do not require pre-approval of overtime or the use of alternate work schedules to reduce the need for overtime. In addition, the Board is not given accurate information regarding overtime to make informed decisions. For example, one of the reports provided to the Board underreported overtime for buildings and grounds employees by \$42,000 for 2014-15. In addition, the Board does not properly analyze and question the information it receives, such as an overtime report for July/August 2015 that presented snow removal and salting of roadways as some of the reasons for the overtime incurred. Additionally, District officials did not provide the payroll clerk with written procedures for processing the payroll. As a result, the District incurred payroll costs that were unnecessary, including overpayments to employees.

Overtime

While overtime pay can be an expected cost of doing business, it is a cost that must be carefully controlled. To help control overtime costs, the District should have a written plan to guide the assignment of overtime in the most efficient and effective manner.

The District's policy requires written procedures to be established to control overtime costs. However, District officials have not developed such written procedures. Overtime costs for building and grounds employees¹ equaled 30 percent of their base salary in 2014-15. Overtime costs increased from approximately \$428,000 to \$591,400, or 38 percent, from 2012-13 to 2014-15.

¹ Buildings and grounds employees are the only employees eligible for overtime at the District. Job titles include custodians, groundskeepers, maintenance mechanics and custodial workers/bus drivers.

The Director of Facilities² is responsible for approving all hours worked on the employees' timecards. While the Director of Facilities maintains a log to track overtime, there is no pre-approval of overtime hours or tracking of overtime incurred during the weekdays. Included in the total overtime costs for 2014-2015, the District incurred \$66,414 to pay two employees who worked as custodians during the day and as bus drivers after working their full shifts as custodians.

The Director of Facilities stated that overtime costs increased because several employees were on leave due to injuries. However, if District officials had properly tracked overtime, some of these costs could have been avoided by implementing cost savings measures such as alternate work schedules. With such a significant portion of the District's annual budget dedicated to employee benefits and salaries, it is important to be proactive in managing overtime costs. Without written procedures, District officials may not be implementing all possible cost savings alternatives available to them and, therefore, may be expending more than necessary on overtime costs.

Board Oversight

The Board is responsible for making sound financial decisions that are in the best interest of the District and the taxpayers who fund its operations. To enable the Board to carry out its fiscal oversight responsibility effectively, District officials must provide the Board with accurate information.

District officials did not provide accurate overtime information to the Board. The Board receives an overtime comparison report and an overtime explanation report. Both reports were inaccurate. We reviewed the fiscal year end overtime comparison report which compared the cost of overtime per month for 2013-14 and 2014-15 for buildings and grounds employees. The report showed total overtime for the year was \$482,604 for 2014-15. Because actual overtime costs were \$525,010, the report underreported overtime by \$42,406. In addition, the Board was not given the overtime cost for the bus drivers, which increased the total overtime by \$66,414 to \$591,424. Furthermore, the overtime explanation reports did not appear to have been reviewed by the Board because the Board did not question unusual explanations included in the reports. For example, the December 2014 overtime explanation report presented Halloween events as an explanation for overtime and the July/August 2015 report presented snow removal and salting of roadways as explanations for overtime.

² Director of Facilities does not supervise the custodians when they are performing bus driving duties.

Because the Board does not receive accurate information or question the information presented, the Board cannot make informed decisions to effectively control overtime.

Written Procedures

Detailed written procedures to implement adopted policies are an effective management tool that can reduce uncertainties and increase effectiveness. District officials have not developed written procedures for processing payroll. We tested records for 20 employees for payroll accuracy. In addition, we tested records for 15 buildings and grounds workers for overtime amounts and reasons and records for two part-time custodians for shift differential calculations. Two part-time custodians were granted annual pay increment increase resulting in \$1,639 of additional pay that they may not have been entitled to because the collective bargaining agreement was silent on that issue. In addition, two employees were paid triple time and eight employees were paid double time and a half for removing snow, resulting in overpayments of \$585 that they were not entitled to. Another two employees were paid the night differential while working daytime hours resulting in overpayment of \$40.13 during the audit period.

Because the payroll clerk did not have written procedures and proper guidance, she followed past practices such as giving employees annual increments without guidance from management. This resulted in the District incurring payroll costs that were unnecessary.

Recommendations

District officials should:

1. Adopt and implement written procedures relating to overtime control.
2. Ensure there is pre-approval of overtime and tracking of overtime incurred. Consider cost saving measures, such as alternate work schedules, to help reduce overtime costs.
3. Ensure overtime information given to the Board is accurate.
4. Provide the payroll clerk with written procedures and guidance.
5. Review the overpayments identified in this report and determine whether to pursue recovery of those payments.

The Board should:

6. Review overtime procedures and appropriately analyze overtime reports to effectively control overtime.

APPENDIX A

RESPONSE FROM DISTRICT OFFICIALS

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

December 16, 2015

Tenneh Blamah
Chief Examiner of Local Government
And School Accountability
Office of State Comptroller
111 State Street
Albany, New York 12236

Dear Chief Examiner Blamah:

The Nanuet School District is in receipt of the results of the Comptroller's audit. We want to thank the Comptroller's office for their thoroughness in auditing the internal controls, the communication provided during the audit and the assistance provided to the School District. We recognize that even in a well run school district, there is always room for improvement.

Overtime has been a concern for the Board. Over the past several years, the Board has required overtime reports be submitted on a monthly basis and read at public meetings. While efforts have been made to contain the costs over the past several years, the extensive number of custodial absences (including a long term illness that resulted in death) and harsh winters have made that difficult. The record snowfall over the past two years is largely the cause for the increase in overtime. Still, the District recognizes that this area can be improved and the District has recently implemented a series of steps (attached to this letter) as a corrective action plan. This includes better uses of "Floaters" and identifying times in which calling in a custodian for overtime may not be absolutely necessary. Fortunately, this has already resulted in a substantial savings during the current fiscal year.

While the Board has been kept informed through monthly reports (which few school districts do), your office has made several good suggestions that we will adopt. The current format has the Director of Facilities providing a general memo of the possible activities that could have resulted in overtime during the year. However, the current format does not make clear that not all activities would have occurred during the month. The Board typically questions the Assistant Superintendent for Business on what caused an increase (if any) and receives answers. The Board was aware of the format and had no reason to question why snow would be plowed during summer months. Most of the same utilization of overtime occurs throughout the year and is not routinely changed month to month.

However, the Comptroller's comments have made us recognize that this may be confusing to someone not at the Board meeting and we have reconsidered the usefulness of the current format. Beginning in December, the Board has received a report that lists the overtime directly connected with the cause. For instance, snow removal will show a specific amount of hours of overtime for that month. Similarly, when the use of buildings by civic groups requires overtime, a specific amount of hours of overtime will be documented. This will eliminate the inarticulate wording in the old report which could be misinterpreted as showing snow removal in summer. The individual reports, by custodian, will continue to be reported to the Board.

We look forward to implementing the suggestions made by your office. Thank you.

Very truly yours,

Mark S. McNeill

Corrective Action plan pursuant to recommendations
of the State Comptroller's Audit

1. **Floater.** The Board established a “floater” position in September of 2014 to reduce overtime. Unfortunately, this position has not been used aggressively to fill in for Custodian I's and II's who take vacation or sick leave. Effective immediately, any leave taken by a Custodian I or II shall be filled by the floater first.
2. **Overtime Zones.** Since September, the previous practice of having areas of buildings cleaned exclusively using overtime has been abolished. All areas of buildings must be assigned to employees during regular hours.
3. **Flexibility.** When one custodial worker is absent in a building a worker requiring overtime will not be brought in to replace him except in extraordinary circumstances. Every effort will be made to maintain the building in excellent condition but areas may need to be prioritized to reduce overtime usage.
4. **Prior approval and procedures.** Except in extraordinary circumstances, the Director of Facilities will approve all overtime in advance. The District will follow written procedures in the assignment of overtime.
5. **Reports to Board.** Reports on overtime to the Board will be broken down by individual categories (events, snow, athletics, absences, etc.) in order to provide the Board with a more complete understanding of the overtime costs every month. Overtime costs for the bus drivers will also be included in the report.
6. **Written Procedures for Payroll.** The District will draft payroll procedures for implementation as soon as practicable.
7. **Recovery of Funds.** To the extent allowable under the collective bargaining agreement, the District will seek recovery of funds paid in error. The District typically recovers funds when a true error has been made.

APPENDIX B

AUDIT METHODOLOGY AND STANDARDS

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

- We interviewed and observed District officials and employees to learn about the procedures used to process payrolls.
- We reviewed Board meeting minutes for evidence of payroll oversight, including employee salary authorization and overtime reports.
- We reviewed the four collective bargaining agreements and three individual employee contracts for salary and overtime requirements.
- We calculated the actual overtime cost and compared it to the overtime comparison report.
- We reviewed overtime explanation reports.
- We reviewed and tested four pay periods for 20 employees for payroll accuracy. We selected November 2014 and May 2015 using a data analysis tool. We again used the data analysis tool to select employees in different categories of employment. We selected 10 percent of all building and grounds employees and hourly workers, five teachers and three administrators.
- We reviewed time cards for a sample of 15 buildings and grounds workers for overtime amounts and reasons. The workers were selected using the data analysis tool to identify school days affected by snow during 2015.
- We reviewed time cards for both of the part-time custodians that received the nighttime differential pay for hours worked during day hours.

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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