

Plainedge Union Free School District

Internal Audit Report

On

Payroll Processing

Plainedge Union Free School District
Internal Audit Report on Payroll Processing

TABLE OF CONTENTS

Report on Internal Controls Related to the Payroll Processing

Payroll Process	Pages 1 – 2
Payroll Disbursement and Accounting Process	Pages 3 – 4
Separation Payment Process	Page 5
Findings and Recommendations	Pages 6 – 9
Corrective Action Plan	Page 10



Board of Education
Plainedge Union Free School District
241 Wyngate Drive
North Massapequa, NY 11758

We have been engaged by the Board of Education (the “Board”) of the Plainedge Union Free School District (the “District”) to provide internal audit services with respect to the District’s internal controls related to the payroll processing for the period July 1, 2018 through March 21, 2019.

The objectives of the engagement were to evaluate and report on the District’s internal controls pertaining to the payroll processing and to test for compliance with laws, regulations, and the District’s Board policies and procedures.

In connection with the following procedures, we have provided findings and recommendations for the internal controls related to payroll processing. Our procedures were as follows:

- Reviewed the District’s policies, procedures and practices with regards to the internal controls related to payroll;
- Interviewed key District employees involved in payroll a detailed walkthrough of the payroll process;
- Tested a sample of contractual and non-contractual payroll to verify the employee’s salary and/or hourly rate as indicated on the *Payroll Check Register* agreed to the applicable employment contract and/or Board approved pay rate; the employee’s withholdings as indicated on the *Payroll Check Register* agreed to the withholding as per the employee’s IRS Form W-4; net salary as indicated on the *Payroll Check Register* agreed to canceled check (if applicable); and direct deposit authorization form existed (if applicable);
- Tested a sample of newly hired employees to verify the Board approved the new hire in the Board minutes and the employee’s salary and/or hourly rate as indicated on the *Payroll Check Register* agreed to the applicable employment contract and/or Board approved pay rate;

- Tested a sample of employees who received overtime pay and verified overtime hourly rates were properly calculated and agreed to employment contracts; time sheets were calculated accurately; the reason for overtime was listed on the time sheet; and overtime hours worked were properly approved;
- Tested a sample of employees who received stipend pay and verified stipend amounts agreed to employment contracts and/or Board minutes; proper documentation existed such as a time sheet; and stipend payments were properly approved;
- Tested a sample of employees who substituted for a permanent teacher and verified the contracted rate agreed to employee contracts and/or Board minutes; and proper documentation existed such as a time sheet;
- Tested the quarterly IRS 941 forms verifying amounts agreed to the general ledger and are reconciled quarterly;
- Tested a sample of active employees from the District's accounting information system and reviewed building level sign in sheets to verify the employees were current employees of the District;
- Tested a sample of former employees who received separation payments to verify the employee was entitled to receive a separation payment upon separation from the District; the separation payment was calculated in accordance with employment contract stipulations; calculation of the separation payment was properly approved; and the former employee did not receive compensation subsequent to the date of last separation payout.

The results of our procedures are presented on the following pages.

Our procedures were not designed to express an opinion on the internal controls related to the payroll processing, and we do not express such an opinion. As you know, because of inherent limitations of any internal control, errors or fraud may occur and not be prevented or detected by internal controls. Also, projections of any evaluation of the accounting system and controls to future periods are subject to the risk that procedures may become inadequate because of changed conditions.

We would like to acknowledge the courtesy and assistance extended to us by personnel of the District. We are available to discuss this report with the Board or others within the District at your convenience.

This report is intended solely for the information and use of the Board, the Audit Committee and the management of the District and is not intended to be and should not be used by anyone other than those specified parties.

Very truly yours,

R.S. Abrams + Co., LLP

R.S. Abrams & Co., LLP
May 29, 2019

Plainedge Union Free School District
Internal Audit Report on Payroll Processing

PAYROLL PROCESS

Based upon our interviews and observations, we noted the guidelines and procedures for the payroll process to be as follows:

- Once an individual has been hired, the District Clerk provides the *Personnel Action Reports* from the Board packet to the principal account clerk in the payroll department notifying them of the new hire.
- The senior typist clerk in the human resources department enters the new employee information, such as salary, number of pays and tax withholding information, into *WinCap*, the District's accounting information system.
- The principal account clerk in the payroll department enters the benefits deduction information and activates the employee in *WinCap* once their employment has been approved by the Board.
- For hourly employees, time sheets are reviewed and approved by the department head or building principal. The time sheets are then submitted to the payroll department.
- For substitute teachers, the Automated Educational Substitute Operator ("AESOP") tracks the substitutes work days for the staff member they are covering. When the substitute teacher arrives to the school, a time sheet is completed which states the teacher being replaced. Then teacher attendance data is uploaded into *WinCap*, the District-wide attendance system by the personnel clerk.
- For overtime hours, the following is submitted to the principal account clerk in the payroll department:
 - Custodians – overtime reports which document the reason for overtime hours worked which must be signed by the employee, supervisor or head custodian and Director of Facilities.
 - Clerical – individual extra hour forms for all hours worked which document the reason for overtime hours worked which must be signed by the employee and their immediate supervisor.
- For processing contractual payrolls, the principal account clerk in payroll department loads the payroll schedule for a particular payroll period for contractual employees' salary in *WinCap*.
- For hourly hours, the account clerk in payroll reviews the daily time sheets for mathematical accuracy and proper approvals and then enters the non contractual daily time sheet hours into *WinCap*.
- The account clerk in the payroll department mathematically adds the timesheets and reconciles the amounts to "Payroll Activity Verification" report after the timesheets are

Plainedge Union Free School District
Internal Audit Report on Payroll Processing

entered into *WinCap*. The information is separated by earnings codes and each earnings code is reconciled by the account clerk in the payroll department. Once reconciled the account clerk provides to the principal account clerk, who will also review the time sheets for mathematical accuracy and proper approvals, as well as that the time sheets were properly entered into *WinCap*.

- Once the daily time sheet information is entered, the account clerk in the payroll department enters the employee's extra pays into the earning screen within *WinCap*.
- After the timesheets and extra pays are entered by the account clerk in the payroll department, the payroll totals are generated through *WinCap*.
- The principal account clerk in the payroll department will review the timesheets and extra pays that were entered into *WinCap* by the account clerk.
- After the payroll information is posted to *WinCap*, the principal account clerk in the payroll department will provide the Superintendent the *Detailed Payroll Check Register*, *Payroll Register Summary* and a sample of ten employees time sheets for review.
- The Superintendent reviews and signs the *Detailed Payroll Check Register* certifying the semi-monthly payroll.

Plainedge Union Free School District
Internal Audit Report on Payroll Processing

PAYROLL DISBURSEMENT AND ACCOUNTING PROCESS

Based upon our interviews and observations, we noted the payroll disbursement and accounting procedures to be as follows:

- Payroll is processed semi-monthly and distributed on the fifteenth and last day of the month. If the fifteenth or last day of the month falls on a weekend or a holiday, payroll will be distributed the Friday or day before.
- The payroll checks are printed on blank check stock, which is secured in a locked safe in the business office.
- The account clerk in the payroll department is responsible for the check printing process, which occurs a few days before the checks are distributed.
- The District's procedure requires one signature on the payroll checks, the District Treasurer, Assistant Treasurer or the Assistant Superintendent for Business are the individuals responsible for signing the checks.
- When the checks are processed in the system and ready for the signature, the account clerk in the payroll department notifies the District Treasurer. The District Treasurer enters a secure password into the system and verifies the check sequence agrees to the log maintained in the business office.
- The payroll checks are printed in the business office, sorted alphabetically by employee, placed in the folding machine and bundled by building.
- On the morning of the payroll date the mail courier picks up the paycheck bundle, which includes the payroll checks, stubs and payroll sign-in sheets for the middle school, each elementary school, the cafeteria and transportation department and delivers them to the secretaries in each building. For the administration building employees, an employee in the business office will pick up the paychecks and distribute the payroll checks. For the High School, the main office secretary picks up the payroll checks and payroll sign-in sheets.
- The mail courier, business office employee, and the High School main office secretary are required to sign the *Check Envelope Pick Up Sheet* when the payroll bundles are picked up from the business office.
- The building level secretaries provide the payroll checks to the employees when they visit the main office.
- Each employee has a picture identification card assigned to them. However, the building level secretaries know everyone in the District, therefore the employee does not show

Plainedge Union Free School District
Internal Audit Report on Payroll Processing

them their identification card to receive their paycheck. Each employee is required to sign the *Payroll Sign In Sheet* when they pick up their paychecks or pay stubs.

- The building level secretary secures the employees checks did not pick up their checks in the safe and holds them until the end of the following day.
- If not picked up by the next day, the building level secretaries will interoffice mail the checks back to the payroll department.
- The account clerk in the payroll department will compare the returned checks to the *Payroll Sign In Sheet*. The checks will then be mailed home to the employees, and the *Payroll Sign In Sheet* will be stamped “mailed” and the date.

Plainedge Union Free School District
Internal Audit Report on Payroll Processing

SEPARATION PAYMENT PROCESS

Based upon our interviews and observations, we noted the separation payment procedures to be as follows:

- For employees that are retiring, resigning or being terminated, the following procedures are performed for calculating the employee's final payroll check:
 - The principal account clerk in the payroll department reviews the *Personnel Action Report* in the Board packet for employees who will be leaving the District. The human resources department will also verbally contact the payroll department to notify them of those individuals who are leaving the District.
 - The human resources department will enter the last day of employment into *WinCap*.
 - Once the employee has left the District, the payout is calculated to avoid discrepancies with the remaining days.
 - The senior typist clerk in the human resources department prints the employee's attendance record from *WinCap* and calculates the amount of days the employee is entitled to be paid out upon separation from the District, based upon contract stipulations.
 - The senior typist clerk in the human resources department will then complete a *Payout Authorization of Sick, Vacation and Personal Days Form* that indicates the number of vacation and sick days and any applicable retirement incentives to determine the employee's final payout.
 - The principal account clerk in the payroll department will review the *Payout Authorization of Sick, Vacation and Personal Days Form* to ensure the final payout was calculated correctly. The employee will also receive a copy of this form to sign and return to the business office.
 - The employee will have the option to have the payment made to their 403b plan or through payroll. Retirement incentives are required to be paid through the employees 403b plan.
 - Once reviewed it is entered into *WinCap* and it is processed to be paid in the next payroll cycle. The principal account clerk in payroll will deduct the amount of the payment made into the employees 403b plan from the payroll payment.
 - Any payment of vacation or sick days to be made to an employee's 403b plan is processed as a wire transfer. The principal account clerk in the payroll department will provide the approved calculation to the District Treasurer. The District Treasurer will process the wire transfer for the appropriate amount. The District Treasurer initiates the wire transfer via the online banking website, the principal account clerk in the payroll department reviews and releases the wire transfer, and the Assistant Superintendent for Business will receive a notification from the bank that the wire transfer was made. Any remaining payment in excess of the annual contribution limit, which is provided by OMNI, will be processed through payroll.
 - Any payment of retirement incentives is processed through accounts payable.
 - After the payout is processed the principal account clerk in the payroll department turns the employee inactive in *WinCap*.

Plainedge Union Free School District
Internal Audit Report on Payroll Processing

FINDINGS AND RECOMMENDATIONS

Based on our interviews and detailed testing, we provide our findings and recommendations to further strengthen the District's internal controls as they pertain to the payroll processing procedures outlined above.

It should be noted that these recommendations are provided to assist management in improving the accounting and internal controls and procedures as it relates to the District's payroll processing. It is important to note that our findings and recommendations are directed toward improvement of the system of internal controls and should not be considered a criticism of, or reflection on, any employee of the District.

Payroll Procedures

Procedure Performed: We reviewed the District's Board policies, procedures and practices with regards to the internal controls related to payroll.

Finding: We noted the District does not review the *Payroll Change Report* generated from the accounting information system.

Recommendation: We recommend the District implement procedures to review the *Payroll Change Report* generated from the accounting information system to ensure that payroll changes are being properly authorized and input correctly.

Payroll Accounting

Procedure Performed: We obtained a sample of 40 contractual and non-contractual employees to verify the following:

- The employee's salary and/or hourly rate as indicated on the *Payroll Check Register* agreed to the applicable employment contract and/or Board approved pay rate.
- The employee's withholding as indicated on the *Payroll Check Register* agreed to the withholding as per the employee's IRS Form W-4.
- Net salary as indicated on the *Payroll Check Register* agreed to cancelled check (if applicable).
- Direct deposit authorization form existed (if applicable).

Finding: No exceptions were found as a result of applying these procedures.

Plainedge Union Free School District
Internal Audit Report on Payroll Processing

New Hires

Procedure Performed: We obtained a sample of 10 new hire employees to verify the following:

- The Board approval of the new hire in the Board minutes.
- The employee's salary and/or hourly rate as indicated on the *Payroll Check Register* agreed to the applicable employment contract and/or Board approved pay rate.

Finding: No exceptions were found as a result of applying these procedures.

Overtime

Procedure Performed: We obtained a sample of 10 employees who received overtime pay to verify the following:

- Overtime hourly rates were properly calculated and agreed to employment contracts.
- Time sheets were calculated accurately.
- The reason for overtime was listed on the time sheet.
- The overtime hours worked were properly approved.

Finding: During our procedures performed, we noted that the District does not require preapproval of overtime for employees other than business office employees. We also noted that the agreement between the Plainedge Board of Education and the Civil Service Employees Association Inc., Local 1000, AFSCME, AFL-CIO, Unit 18, Nassau Educational Local 865; states that overtime pay excludes longevity, night differential and building checks. In 2007, the District determined that the contract incorrectly defined the term "overtime" and issued an agreement to define the term "overtime" to include longevity, night differential and building checks in its calculation. However, we noted that in the CSEA employment contract dated July 1, 2016 to June 30, 2021, the term "overtime" is again incorrectly defined.

Recommendations: We recommend that the District require preapproval for overtime for all bargaining units. We also recommend the District update the definition of the term "overtime" in the CSEA employment contract when updated.

Stipends

Procedure Performed: We obtained a sample of five employees who received stipend pay and verified the following:

- Stipend amounts agreed to employment contracts and/or Board minutes.
- Proper documentation existed such as a time sheet.
- Stipend payments were properly approved.

Plainedge Union Free School District
Internal Audit Report on Payroll Processing

Finding: No exceptions were found as a result of applying these procedures.

Substitutes

Procedure Performed: We obtained a sample of 10 employees who substituted for a permanent teacher and verified the following:

- Contracted rate agreed to employee contracts and/or Board minutes.
- Proper documentation existed such as a time sheet and attendance records.

Finding: No exceptions were found as a result of applying these procedures.

941 Reconciliation

Procedure Performed: We tested the quarterly IRS 941 forms verifying amounts agreed to the general ledger and were reconciled quarterly.

Finding: No exceptions were found as a result of applying these procedures.

Active Employees

Procedure Performed: We obtained a sample of 10 active employees from the District's accounting information system and reviewed the following:

- The building level sign in sheets to verify the employees were current employees of the District.

Finding: No exceptions were found as a result of applying these procedures.

Separation

Procedure Performed: We obtained a sample of 10 former employees who separated from the District to verify the following:

- The employee was entitled to receive a separation payment upon separation from the District, if applicable.

Plainedge Union Free School District
Internal Audit Report on Payroll Processing

- The separation payment was calculated in accordance with employment contract stipulations, if applicable.
- Calculation of the separation payment was properly approved, if applicable.
- The former employee did not receive compensation subsequent to the date of the last separation payout.
- The employee's final contractual payment was properly calculated, if applicable.
- If the employee did not receive a separation payment, that the employee was not entitled to receive a separation payment upon separation from the District.

Finding: No exceptions were found as a result of applying these procedures.

Plainedge Union Free School District
Internal Audit Report on Payroll Processing

CORRECTIVE ACTION PLAN

The District is required to prepare a corrective action plan in response to any findings contained in the internal audit reports. As per Commissioner's Regulations §170.12, a corrective action plan, which has been approved by the Board, should be submitted to the State Education Department within 90 days of the receipt of a final internal audit report.

The approved corrective action plan and a copy of the respective internal audit report should be submitted using the NYSED Business Portal.