

**REPORT TO THE AUDIT COMMITTEE**  
**South Colonie Central School District**

<b>REPORT DATE</b>	June 25, 2019
<b>PROCESS REVIEWED</b>	Payroll
<b>DATE OF REVIEW</b>	March - 2019
<b>SCOPE OF WORK</b>	Transactions for the period July 1, 2017 through February 28, 2019
<b>SCOPE RESTRICTIONS</b>	There were no scope restrictions.
<b>CONTROLS REVIEWED</b>	In conducting the internal audit review over Payroll, the following controls were considered and evaluated:
	<ol style="list-style-type: none"> <li>1. General procedures for processing payroll</li> <li>2. Authorization</li> <li>3. Fraud/Risk</li> <li>4. Monitoring</li> <li>5. Processing &amp; Recording</li> </ol>
<b>TESTING PROCESS</b>	
1. General	<ul style="list-style-type: none"> <li>• Observed and reviewed the operational procedures for processing payroll, substitutes, and retirement/incentive payments.</li> <li>• Interviewed and inquired of key personnel. This included: <ul style="list-style-type: none"> <li>- Sherri Fisher, Asst. Supt. for Management Services</li> <li>- David Perry, Asst Supt. for Human Resources</li> <li>- Anjelieceque Martinez, District Treasurer</li> <li>- Linda Gordiman, Head Payroll Clerk</li> <li>- Shirley Kelty, Payroll Clerk</li> <li>- Kiamesha Wright, Payroll Clerk</li> </ul> </li> </ul>
2. Authorization	<ul style="list-style-type: none"> <li>• Determined that individuals preparing payroll are independent of other payroll and personnel duties and restricted from access to cash, or that there are adequate compensating controls in place.</li> <li>• Determined that responsibilities for payroll accounting are separate from the general ledger function.</li> <li>• Determined that there is restricted access to: <ul style="list-style-type: none"> <li>- Unused payroll check stock;</li> <li>- Signature disk(s)/applications; and</li> <li>- Personnel Records.</li> </ul> </li> <li>• Determined that unclaimed payroll checks are properly controlled initially and at the time of their subsequent distribution.</li> <li>• Determined the adequacy of authorization, approval, and documentation regarding changes/additions/deletions made to the payroll master file. Reviewed procedures to ensure all new hires, modifications, and terminations are approved by the Board of Education.</li> </ul>

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	<ul style="list-style-type: none"> <li>• Reviewed 12 records/files of newly hired employees to ensure that all required documentation is included in their payroll/HR file. These include, applications and resumes, fingerprint clearance, teaching/administrative certificates, employee eligibility forms (I-9), tax withholding forms, retirement system notifications, and oath of office.</li> <li>• Reviewed a sample of employees that applied for vacation buyback or the early retirement benefit (Sample – 8 retirement incentive ;5 Vacation buyback) to ensure the requirements were verified and the incentives were valid.</li> </ul>
<p>3. Fraud/Risk of Errors</p>	<ul style="list-style-type: none"> <li>• Reviewed the process for controlling check stock custody.</li> <li>• Determined that an individual independent of payroll preparation reconciles the payroll cash account monthly.</li> <li>• Reviewed the transaction history for employees and inquired of any unusual transactions. Reviewed appointments to position.             <ul style="list-style-type: none"> <li>- Verified that wages were allocated to the position to which employees were appointed;</li> <li>- Verified that employees were appointed by the Board of Education.</li> </ul> </li> <li>• Reviewed salary notices.             <ul style="list-style-type: none"> <li>- Ensured that employees’ salaries were aligned with appropriate collective bargaining agreement;</li> <li>- Calculated and verified gross pay for the sample selection of employees (12 records tested);</li> </ul> </li> <li>• Verified payroll withholding forms and payroll authorization forms in personnel files.</li> <li>• Reviewed the reconciliation of time and attendance with substitute records. (22 samples selected)</li> <li>• Reviewed the payroll certification process.</li> <li>•</li> </ul>
<p>4. Monitoring</p>	<ul style="list-style-type: none"> <li>• Determined that pre-numbered payroll checks are used, the sequence is accounted for, and un-issued checks are controlled.</li> <li>• Inquired as to whether a comparison of actual to budgeted payroll is performed.</li> <li>• Review of overtime costs.</li> <li>•</li> </ul>
<p>5. Processing &amp; Recording</p>	<p>A sample of 12 payroll transactions were selected to determine the following:</p> <ul style="list-style-type: none"> <li>• Notice of changes in personnel data are reported promptly to the payroll accounting function &amp; recorded in the database;</li> <li>• Authorized rates of pay are utilized;</li> <li>• Payroll transactions are created using approved time sheets and authorization forms.</li> </ul>

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<b>FINDINGS / RECOMMENDATIONS</b>	
1. General Controls	<p>There were no material findings or exceptions noted in the general controls of processing payroll.</p>
2. Authorization	<p>There were no material findings or exceptions noted with the segregation of duties with Payroll and Human Resources personnel. Additionally, access to check stock, signature disks and personnel records appears adequately segregated and secured with access only available to authorized personnel.</p> <p>The review of the 12 sampled employee files noted the following:</p> <ul style="list-style-type: none"> <li>• One Employment Eligibility Verification (Form I-9) was not signed by the official verifying the information.</li> <li>• We could not locate the signed salary notices for two of the employee files.</li> <li>• The signed Oath of Office was missing for two employee files.</li> </ul> <p><b>Recommendations:</b> The new hire checklist may need to be reviewed/updated with all employees associated with the process of collecting new hire forms.</p>
3. Fraud/Risk of Errors	<p>Payroll expense is the largest expense of the school district and therefore has increased risk for errors and fraud. The internal controls are in place and functioning for securing the check stock and signature disks.</p> <p>The posting of payroll and General Ledger transactions is properly segregated. Additionally, there is segregation of duties and an independent review of the bank reconciliation of the payroll account.</p> <p>1. One of the strongest internal controls for payroll is the payroll certification process. This process was reviewed, and the payroll is certified every payroll however the following was noted.</p> <p><b>Recommendation:</b> To further strengthen the certification process the “Payroll Change/Audit Report” should be included in the payroll certification review process.</p> <p>2. The sample of 12 employees sampled were reviewed to ensure their wages agreed with the collective bargaining agreements, payment amounts were correct based upon timecards (if applicable) or stipend allotments. There were no exceptions noted.</p>

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3. We Examined 22 random samples of substitute employee payroll records from January 1, 2018 through February 28, 2019. We verified substitute records for accuracy and compliance with district policy and the corresponding employee they were substituting for had their time accurately accounted for. There were no exceptions noted.
4. The review of employees that applied for vacation buyback or the early retirement benefit noted that the calculations were all processed appropriately, however no independent person from payroll performs a review of the calculation to ensure accuracy. Since the calculation is manually created and may include several criteria established by collective bargaining agreement, a review by an independent person should occur.

**Recommendation:** The final approval of an incentive/vacation buyout payment should include a recalculation by someone independent of payroll to ensure the calculation is correct.

5. The review of the payroll process and the payroll calendar noted that the first paycheck for 10-month employees contains a full (10 day) paycheck, even if the employees have worked less. This creates two issues:
  - a) The “pre-payment” violates the law for gifting or loaning of public funds. Since the employees haven’t provided a service but are being paid for this service, the employees are essentially getting an interest free loan. On an employee basis this amount may not be material, however collectively, this prepayment is a substantial number out of the payroll system that must be tracked.
  - b) Since the employees are being prepaid in the first payroll, they will continue to be prepaid throughout the year until the final payroll. The risk occurs if an employee leaves employment during the year. The payroll department must take these prepaid dates into consideration and manually subtract them from the employee’s final paycheck. If the employee resigns/terminated without notice the school may be in a situation of trying to collect money back from the employee since they were prepaid.

**Additional comment** – Certain collective bargaining agreements specify the first payday will be the first Friday after the opening school. This clause conflicts with legal opinions of the NYS Comptroller and of the NYS Education Department. Specific case law (*Board of Education of Ramapo CSD v. Ramapo Teachers Association, (1994)*).

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	<p><b>Recommendation:</b> The district should evaluate the payroll calendar and adjust it prevent the prepayment of employees. The district may also want to have legal counsel review the collective bargaining agreements to make changes and/or change them as they are renegotiated.</p>
<p>4. Monitoring</p>	<p>In addition to the payroll certification process, monitoring budget to actual, overtime expense and period over period comparisons is essential to identify any potential errors. This process is performed by the Asst. Supt. for Management Services and appears to be effective.</p>
<p>5. Process &amp; Recording</p>	<p>In general, the processing and recording of payroll appears to be performed with minimal errors or exceptions. The items noted above should be reviewed by management to further strengthen the process.</p>

During the review, observations and recommendations that were made to management but were not material in nature and were only suggestions. These recommendations were not material but may improve efficiency.

It was a pleasure working with the employees who participated in this review. If there are any questions concerning this review or report, please feel free to contact me.



Submitted by: \_\_\_\_\_  
Michael T. Wolff, CIA, Internal Controls Auditor

Date: 6/25/2019  
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**APPROVED BY  
BOARD OF EDUCATION**

6-26-2019

  
**PRESIDENT, BOARD OF EDUCATION**