

Plainview-Old Bethpage Central School District
Internal Audit Report on Detailed Testing -
Payroll and Bond Activities
June 18, 2024



INTERNAL AUDIT REPORT ON DETAILED TESTING - PAYROLL AND BOND ACTIVITIES

To the Board of Education and Audit Committee
Plainview-Old Bethpage Central School District
Plainview, New York

We have prepared this report as the result of our detailed testing, as further described, which were agreed to by the Plainview-Old Bethpage Central School District (District), on payroll and bond activities during the period January 1, 2023 through February 28, 2024.

The District's management is responsible for administering these areas.

This engagement is in accordance with auditing standards generally accepted in the United States of America and the applicable standards contained in *Government Auditing Standards* issued by the Comptroller General of the United States, or the *International Standards for the Professional Practice of Internal Audit* issued by the Institute for Internal Auditors. The sufficiency of the procedures is solely the responsibility of the District. Consequently, we make no representation regarding the sufficiency of the procedures either for the purpose for which this report has been requested or for any other purpose.

Our procedures and findings are described in the following pages.

We were not engaged to and did not conduct an examination or review, the objective of which would be the expression of an opinion or conclusion, respectively on payroll and bond activities. Accordingly, we do not express such an opinion or conclusion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

We would like to express our appreciation for the cooperation and assistance that we received from the District's administration and other employees during our engagement.

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

Cullen & Danowski, LLP
June 18, 2024

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For the Period Ended February 28, 2024

Introduction:

This report is categorized by area (i.e., payroll and bond activities), and there are five sections under each area consisting of:

- Background information
- Summary of the engagement
- Procedures performed during our detailed testwork
- Findings as a result of our review
- Recommendations to further strengthen internal controls or improve operational efficiency

Some of the recommendations may require a reassignment of personnel duties within the District and/or a monetary investment. However, any enhancement of controls should be done after a careful cost-benefit analysis.

Corrective Action Plan:

Commissioner of Education Regulation §170.12(e)(4) requires that a corrective action plan (CAP), approved by the Board of Education, must be filed within 90 days of issuance with the New York State Education Department (NYSED).

The District should submit the CAP along with the respective Internal Audit Report via the NYSED Portal.

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Internal Audit Report on Detailed Testing – Payroll and Bond Activities (Continued)
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PAYROLL

Background:

Good business practice requires that the District establish proper segregation of duties and adequate controls over the payroll area. These controls should ensure the completeness and accuracy of payroll related transactions (e.g., salaries, claims forms, stipends, separation payouts, etc.), changes to salaries, user account revisions, and the retention of proper documentation supporting the activities.

The expenditures related to payroll are usually the largest part of the annual budget for school districts, the 2023-24 budget for the District's salary related expenditures including contractual, hourly, longevity and stipend costs totals \$94,137,283. The Business Office has a full-time Principal Account Clerk and a full-time Senior Account Clerk working in the Payroll Department (Department) to handle the District's payroll processing with assistance from other employees. The Assistant Superintendent for Business (Assistant Superintendent) oversees the activities of the Department. The District utilizes the WinCap financial system (WinCap) to process payroll. This is a powerful, sophisticated product that has been tailored to meet the requirements of New York State school districts. The payroll module is fully integrated into the financial reporting module, which is very efficient and significantly reduces the likelihood of processing errors.

We performed a review of the District's payroll processing that included meetings and test work, as per the engagement letter dated January 24, 2024, to determine the effectiveness of the payroll area. During the fieldwork, we gained an understanding of the past practices, current initiatives, and any planned changes related to the payroll area.

Summary:

We note that the oversight and review of transactions is appropriate; the adequacy of internal controls designed to mitigate the inherent risk within the payroll process are adequate (e.g., Payroll Clerk is unable to set up employees in WinCap); and the Business Office understands the need to have proper controls in place. We also found that the employees we interviewed demonstrate a positive attitude towards improving procedures and are knowledgeable about the requirements related to their responsibilities.

We found an opportunity to improve operations as a result of our engagement that is described further in the findings and recommendations sections that follows. We suggest implementing this recommendation to further strengthen internal controls and/or improve operational efficiencies related to the District's payroll area.

Procedures:

Our procedures related to payroll, as per the engagement letter dated January 24, 2024, were as follows:

- Review Board policies and District procedures related to payroll.
- Interview Business Office employees regarding policies, procedures, and systems in effect related to payroll processes.
- Review all collective bargaining agreements and a sample of individual employment agreements to understand the terms and conditions.
- Review the current payroll cycle process and identify the strengths, weaknesses, and key control attributes for testing.

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- Perform a payroll reconciliation from one cycle to the next during this fiscal year and document the process. Review supporting documentation for a sample of activities in one of the payrolls.
- Review payroll related activity during the period under review as follows:
 - For contractual payments – select a sample of 25 payments to ensure the amount paid agrees to employee records and contract (if applicable) and compare all amounts withheld for benefits, union dues, etc. to supporting documentation.
 - For non-salary payments (hourly, stipend, overtime, etc.) – select a sample of 50 payments and review for proper approval, amount, and account distribution.
 - For new hires – select a sample of 10 payments to ensure that the payment amounts are correct (i.e., salary amount agrees to Board approval or employee’s contract), appointment was Board approved prior to start date, and proper documentation is on file (e.g., certifications, etc.)
 - For separation payments - select a sample of 10 payments to ensure final payments are correct (i.e., retirement incentives; accumulated unused time), proper documentation is on file (i.e., retirement or resignation letter from employee; Board resolution), and compliance with specifications in the respective contract.
 - For staff on leave of absence – select a sample of 10 employees to review the cut-off and restoration activity related to payroll.
 - For disbursements to third parties as a result of withholdings (union dues, taxes, etc.) – select a sample of 2 payments for each type of withholding (or benefit) and compare to payments made to the applicable third party.
 - For changes to the payroll module data – select a payroll change report for 2 months to ensure a sample of edits are appropriate as well as properly approved and supported (i.e., Board approval).
 - For substitute teacher payments – review and document the procedures and select all of these payments from 2 pay cycles to ensure accuracy and completeness as well as reconcile these payments to the permanent teachers’ absences and ensure the absences are properly recorded.

Findings:

Review of Board policies and District procedures and interviews with Business Office employees related to payroll found:

- There are Board policies related to payroll that include #6410 – *Authorized Signatures*, #6800 – *Payroll Procedures*, #9500 – *Compensation and Benefits*, #9520.2 – *Family and Medical Leave*, #9520.5 – *Leaves of Absence*, and #9520.6 – *Employee Absence and Leave Allowance*.
- The Department and Personnel staff utilize the WinCap system-generated reports to review and analyze key data including payroll change reports, employee attendance reports, and other employee related reports.
- The Personnel staff create the new employee records within WinCap and activate the new hire in the Human Resources module. After the Personnel staff set up the new employee, the Department enters the salary information and the start date to begin the payroll payments. The new employee only starts receiving paychecks after the Department has completed these steps, resulting in appropriate segregation of duties related to payroll processing for new hires.

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- The Business Office performs a thorough review of the salary changes related to the annual rollover process. This includes using WinCap system-generated payroll reports (contract and rate reports; salaried employees payroll comparison reports; etc.), double checking the salary tables and confirming the salary amounts for the various employee "types" within WinCap.
- The District has standard procedures related to the administration of the payroll area:
 - No person may be added to the payroll prior to approval by the Board of Education.
 - The Department is responsible for preparing all payrolls.
 - No payment should be made to any employee prior to services being rendered to the District.
 - The annual Board Reorganization Meeting includes a resolution that states "the Superintendent of Schools be authorized to certify the payroll."
- There are opportunities to enhance processes due to the significant number of hard copy documents used by the District related to payroll activities including class coverages by the instructional staff, coverage of absences by substitutes, etc. The use of technology to systematically record, review, and process these payroll activities related to non-contractual payments would streamline the processes and result in efficiencies, as well as provide system-generated reports for analysis.

Review of all collective bargaining agreements and a sample of individual employment agreements noted:

- The terms and conditions in these agreements were understandable and this information was needed to complete our testwork related to the selected payroll payments that we reviewed during our fieldwork.

Review of the current payroll cycle process found:

- The Department performs a complete review during each payroll cycle using a worksheet along with several WinCap system-generated reports to compare earnings, deductions and withholdings (e.g., federal taxes, state taxes, annuities, etc.), and maintains appropriate supporting documentation.
- Throughout our review of the payroll cycle there were no exceptions or errors noted regarding payroll contractual amounts. There is adequate segregation of duties and all payments tested had been supported by collective bargaining agreements and appropriate authorization and approvals.

Performing a payroll reconciliation from one cycle to the next during this fiscal year and review of supporting documentation for selected activities in one of the payrolls noted:

- There were no exceptions noted during the review of the June 9, 2023 and December 8, 2023 payroll reconciliation as the activities selected for review appeared appropriate and were properly supported.
- The District maintains the proper records related to the payroll reconciliation that the Department completes for each payroll cycle. This includes utilizing WinCap system-generated reports: *Detailed Payroll Check Register*, *Salaried Employees Payroll Change Report*, and *Employee Schedule of Payments Listing*, as part of the detailed review process.
- The District was able to provide the requested documentation to support the changes recorded in the WinCap system-generated *Salaried Employees Payroll Change* report, which lists all earnings and deductions variances from one payroll cycle to the next. This included the supporting records for all employees with changes to their contractual payroll code amount, the selected employees with changes to other payroll codes and explanations for variances to certain payroll codes in total.

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- The payroll certification process includes the submission of the WinCap system-generated *Detailed Payroll Check Register* and *Salaried Employees Payroll Change* reports to the Superintendent, or in their absence, the Assistant Superintendent for Business, for their review to certify each payroll cycle.
- The Department includes the explanations on the *Salaried Employees Payroll Change* report, which lists the differences related to earnings and deductions from the current payroll cycle to the previous payroll cycle. The inclusion of this report along with the explanations as part of the payroll certification process enhances the review and approval process by the Superintendent.

Review of the selected 25 contractual payments to employees found:

- There were no exceptions related to the payment amounts as we noted all of these contractual payments had been accurate based on the employee's salary amount as per their respective employment contract and all amounts withheld were properly supported.
- The employee payroll files are filed chronologically and include all documents related to both additional payments (e.g., overtime, chaperone) as well as documents authorizing the various payroll deductions (e.g., benefits, flex spending accounts, union dues, etc.).

Review of the selected 50 non-salary payments (hourly, stipend, overtime, etc.) to employees noted:

- There were no exceptions related to the payment amounts as we noted all these non-salary payments had been accurate based on the employees' rate of pay as per their respective employment contract and all payments were properly approved.
- The employee payroll files are filed chronologically and include all documents related to both additional payments (e.g., overtime, chaperone) as well as documents authorizing the various payroll deductions (e.g., benefits, flex spending accounts, union dues, etc.).

Review of the selected 10 new hires and the procedures to add these employees to the payroll found:

- There were no exceptions related to the payroll amounts of the selected employees as we noted the payments had been accurate based on the employee's salary amount as per their respective employment contract.
- There were 2 instances where an employee's start date was prior to the Board appointment date. However, in both instances the start date was within 5 days of the Board appointment date and these employees were not paid until after the Board approval date as per the District's protocols.
- The District has appropriate procedures to add the employees to the payroll based on staff changes related to hiring employees.

Review of the selected 10 separations and the procedures to remove these employees from the payroll noted:

- There were no exceptions related to the payroll amounts of the selected employees, the separations were Board approved and the proper documentation was on file.
- The separation payments were properly supported with adequate documentation that included a detailed calculation of the payout, employees' attendance calendar, employees' resignation letter and Board minutes approving the employees' separation. In addition, we noted that the payments agreed to the employees' bargaining unit contract information related to the separation payouts.
- The District has appropriate procedures to remove the employees from the payroll based on staff changes related to employee separations.

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Review of the selected 10 staff on leaves of absence and the procedures to add and remove these employees to/from the payroll found:

- There were no exceptions noted as the cut-off and restoration activity related to payroll were appropriate. In addition, the absences related to these leaves were properly recorded in WinCap and the amount of benefit time used agreed with the employees remaining benefit time balance.

Review of the disbursements to third parties as a result of withholdings for the selected 2 payroll cycles noted:

- The third-party payments related to withholdings had been processed correctly and timely.

Review of the payroll module data changes for the selected payroll change reports from 2 months found:

- There were no errors related to the selected payroll change amounts, as we found that these revisions had been appropriate, supported, and properly approved (i.e., Board resolution). The reasons for these differences are formally documented on the *Salaried Employees Payroll Change Report* during the review of each payroll cycle as noted above.

Review of the substitute teacher payments from the selected 2 payroll cycles noted:

- There are formal procedures and standard forms that are used by the District related to processing payments to substitute teachers. This includes the *Substitute Sign-in Form* for substitute teachers who substitute for the regular teachers and the *In-District Substitute Utilization Form* for District teachers who substitute for colleagues (6th period coverage and extra period pay). The forms are to be completed by the teachers performing substitute duties and approved by the supervisors or principals and then sent to the Business Office. The Business Office reviews the forms to ensure the accuracy of the hours and that there are proper signatures. After completing the review, the Department enters the hours into WinCap and reconciles the information on the forms to the WinCap *Payroll Activity Verification Report* for the respective payroll cycle prior to processing the substitute teacher payments.

Recommendation:

We recommend that the District consider implementing the following item to further improve internal controls and operational efficiencies related to payroll activities:

1. Utilize Technology – Investigate options to utilize technology to systematically record, review, and process the payroll activities related to non-contractual payments (e.g., class coverages, substitutes, etc.) to streamline the processes and result in efficiencies, as well as provide system-generated reports for analysis.

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BOND ACTIVITIES

Background:

We were engaged to review the District's activities related to bond activities. On December 9, 2014, the voters approved a bond referendum related to various renovations and improvements that allowed the District to borrow an amount not to exceed \$49.8M. The District is required to ensure that proper accounting is maintained related to the capital and bond projects within the Capital Projects (H) Fund. As part of this responsibility, the District must report the status of individual capital projects in the annual financial statements (i.e., Capital Projects Schedule). The bond projects of various sizes were funded by proceeds of obligations (i.e., bonds) totaling \$49,116,257 as per the *Schedule Of Project Expenditures And Financing Resources - Capital Projects Fund* in the financial statements for the year ended June 30, 2022. This schedule lists the authorization amounts; expenditures for prior years, current year, and total amounts; unexpended balance; methods of financing; fund balance/(deficit) amount for each project. We found that the capital projects' costs are accounted for in the District's H Fund within the WinCap financial system.

Summary:

Overall, we found that the District has appropriate policies and procedures in place to manage the bond projects. The administrators and employees we interviewed understand their responsibilities and perform a diligent job in tracking, recording, and maintaining the bond projects records.

Procedures:

Our procedures related to bond activities, as per the engagement letter dated January 24, 2024, were as follows:

- Interview appropriate personnel to discuss key processes that include the monitoring, recording, and accounting related to the bond activities.
- Assess the District's account codes in the financial system to ensure that the codes facilitate the tracking and monitoring of budgets and expenditures related to the bond projects.
- Review the Capital Projects Fund statements and schedule as per the Financial Statements, for the year ended June 30, 2022 and year ended June 30, 2023, to assess the financial activity of this fund related to the bond projects. On a test basis, we will compare budgets of selected bond projects to the filings with the NYSED.
- Review a sample of the state aid reports for fiscal years 2022 and 2023 and compare to the District's records related to the bond projects.
- Select 10 disbursements from the Capital Projects Fund related to bond projects to ensure that the payments were properly reviewed and approved, and the charges were posted to correct accounts.

Findings:

Interviews with personnel to discuss key processes and assessing the District's account codes in the financial system noted:

- The District has established distinct account codes in the H Fund of the financial system to record the budgets and expenditures of each bond project appropriately using the location code for the building and

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the program code for the NYSED project number. This facilitates the recording, tracking, monitoring, and recording the budgets and expenditures of each capital project.

Review of the Capital Projects Fund statements and schedule and comparison of budgets for the selected bond projects to the filings with the New York State Education Department found:

- The actual and budget amounts for the selected bond projects were accurate, properly supported, and reported correctly in the *Schedule Of Project Expenditures And Financing Resources - Capital Projects Fund* as per the financial statements for the year ended June 30, 2022 and year ended June 30, 2023.

Review of the of state aid reports and comparison to the District's records related to bond projects noted:

- There were no exceptions or errors as a result of reviewing the state aid reports and comparing the information to the District's records where the amounts and project details were the same.

Review of the 10 disbursements selected from the Capital Projects Fund found:

- There were no exceptions or errors noted during our testing of the selected payments related to the payment amounts and the budget account codes, which were all correct.
- There were 4 instances where the date of a purchase order (PO) was after the date goods or services were received, commonly referred to as a confirming PO.
- There were 2 instances where a payment to a vendor was made more than 90 days after the date of the invoice.

Recommendation:

We recommend that the District consider implementing the following item to further improve internal controls and operational efficiencies related to bond activities:

1. Payments to Vendors – Ensure that the District follows the established procedures to prepare POs in advance of receiving goods or services, thus preventing instances of confirming POs, and to process payments to vendors timely. (*Note:* the instances listed above in the Findings section as a result of our review of the selected 10 disbursements were related to the bond activity from 2017 through 2021)

