



**PLAINVIEW-OLD BETHPAGE
CENTRAL SCHOOL DISTRICT**

REPORT ON PAYROLL AND HUMAN RESOURCES

JUNE 2020

June 2020

The Board of Education
Plainview-Old Bethpage Central School District
106 Washington Avenue
Plainview, New York 11803



Board of Education:

We have been retained to function as the internal auditor for the Plainview-Old Bethpage Central School District (hereinafter, "the District"). Our responsibility is to assess the internal control systems in place within the District, and to make recommendations to improve upon possible control weaknesses or deficiencies. In doing so, we hope to provide assurance to the District's Board, management, and residents, that the fiscal operations of the District are being handled appropriately and effectively.

BACKGROUND

We previously performed a review of Payroll and Human Resources (HR) and issued a report of our recommendations to the Board in November 2009 and subsequently performed tests of specific aspects of HR and Payroll including lane changes (fiscal 2014) and online paycheck processing (fiscal 2015). Although recommendations made in conjunction with these reviews have been implemented, due to the inherent risk associated with this area, we recommended re-testing this area during our risk assessment performed in fiscal 2018.

PURPOSE

The purpose of our review was to assess whether the District has sufficient internal controls over the payment of salaries, including overtime and stipend payments. Since salaries represent the largest expenditure of the District, it is essential that the District ensure it has instituted measures to ascertain whether salary payments are in compliance with District-employee contracts, are properly documented, and are correctly calculated. In addition, the District should ensure salary payments reflect compensation paid to only valid employees of the District, and methods for recording, maintaining, and tracking salaries exist to ensure the accuracy of salaries paid by the District.

SCOPE

To perform the review, we gained an understanding of the policies and procedures that are in place for salaries. We then tested a sample of active and newly hired employees to determine whether:

- the salary was properly supported by approved salary notices, Board Action Sheets, timesheets and/or the respective contract;
- the rate of pay was supported by education, certification, and years of service documentation;
- the payroll was coded to the correct General Ledger account;
- the proper employment and election forms are maintained in the personnel files;
- the employee was not currently on unpaid leave; and

- the first check/direct deposit date is reasonable based on the employee's hire date (for newly hired employees).

In addition, we performed tests of the District's payroll expenditures for: overtime/extra pay, substitutes, longevity, and terminated/resigned/retired employees. We also reviewed the personnel files of employees receiving pay via direct deposit to determine whether each file contained support for the employee's employment and confirm the accuracy of direct deposit information.

Our testing was based on information obtained in the District's financial management system, WinCap, and consisted of the following:

- Active employees: 35 selections (including 10 receiving hourly or daily timesheet pay)
- Newly hired employees: 23 selections
- Substitute employees: 20 selections
- Overtime/extra pay (excluding longevity): 25 selections
- Longevity pay: 15 selections
- Terminated/resigned/retired employees: 14 selections
- Leaves of absence: 5 selections

Lastly, we examined the access permissions within WinCap to determine if access to Payroll and HR functions is adequately segregated and restricted.

CONCLUSION

While our review of Human Resources and Payroll processes indicated that the District has implemented sufficient internal controls surrounding payroll expenditures, we noted a few areas where internal controls could be strengthened.

The detailed results of our review are included in Sections I and II of this report.

I. HUMAN RESOURCES:

A. SALARY NOTICES AND BOARD ACTION SHEETS (HR):

Annual salary notices are generated by the HR department in conjunction with the Payroll department and sent to employees as an acknowledgement of their salary rate for the fiscal year. The salary notices include the employee's hire date, level and step, position, and contracted salary. In addition to the annual salary notices, each employee's personnel folder is required to have a Board action sheet which demonstrates that the employee was approved by the Board for the employee's current position. Through our testing of active employees, newly hired employees, substitute employees, and employees receiving overtime and extra pay, we noted that all of our selections were Board approved. **No exceptions were noted.**

B. REASONABLE ASSURANCE LETTER:

Per the Department of Labor and the Unemployment Insurance (UI) Law, educational institutions must provide unemployment insurance for those regularly employed and those hired per diem (i.e. substitutes). Unemployment costs can be burdensome on a

district's budget. However, teachers and other district employees generally do not qualify for UI benefits during breaks in the school year or the time between school years/terms when a contract for a similar position is in place or there is reasonable assurance of a similar position in the next school year/term. When a district provides a verbal or written notification indicating that a per diem employee will be placed on a substitute list, this constitutes reasonable assurance. Reasonable assurance exists when the District has said that it will employ a worker and will make good effort to do so and offers salary and benefits similar to the prior job. Through our testing of substitute employees, we noted that the District provided documented reasonable assurance as necessary. **No exceptions were noted.**

C. LICENSING AND BACKGROUND CHECKS:

The District requires all new hires to have general background checks to be completed. This policy was amended with the Safe Schools Against Violence in Education (SAVE) Act. One of the major provisions of this legislation was the change to Section 305 of Education Law which allowed schools to elect to fingerprint prospective employees. Effective July 1, 2001, all prospective employees of school districts are required to undergo fingerprinting and criminal background checks. In addition, instructional staff and nurses are required to be properly licensed/certified as required under New York State Education Department (NYSED) guidelines. Through our review of active, newly hired, and substitute employee selections, we determined whether proper background/fingerprint checks and, if applicable, proper licensing/certification existed. **No exceptions were noted.**

D. ERS/TRS:

Districts are required to inform employees about the Employee Retirement System (ERS) or Teachers Retirement System (TRS). For each employee that is eligible to be a member of the ERS or TRS, his/her personnel folder should contain documentation of declination or acceptance into the system. The NYSED requires that an "employee's declaration of intention to decline membership or participation in retirement system or benefit plan, including copy of written notification of options provided employee by local government" must be retained for 6 years after termination of employment. During testing of our active and newly hired employee selections, we examined each selection's personnel folder to verify whether the employee had accepted enrollment into the retirement system or whether a "Declination of Enrollment" form existed. If an enrollment application could not be located, we looked at the payroll register being tested and noted if the employee was currently contributing.

Auditor's Comment: Although the District has a procedure in place to ensure every employee is notified of the ERS/TRS, there were three employees whose file did not contain evidence that he/she was informed about the TRS. Through review of each employee file, we noted these employees have been with the District for over fifteen years. The District was able to provide us with documentation to support the employees' TRS membership. Since such notification is required to be documented and maintained in the employee file by State law, the District should consider maintaining employee file documents electronically.

E. CITIZENSHIP VERIFICATION DOCUMENTS:

The Immigration Reform and Control Act (IRCA) made all employers responsible for verifying the identity of and employment authorization of all employees hired after November 1986. The law requires employers to complete Form I-9, Employment Eligibility Verification forms, for all employees and document the proof of identification provided by employees to verify citizenship and show eligibility to work in the United States. We determined whether Form I-9s were properly completed during our testing of newly hired, substitute, and other active employees.

Issue #1: During our testing of the 35 active, 20 substitute, and 23 newly hired employee selections, we noted one employee for whom the District did not maintain the Form I-9.

Risk: Failure to comply with Federal and State regulations.

Priority: High

Recommendation: We recommend that the District ensure all Form I-9s are completed and retained as required by law. The District should consider maintaining employee file documents electronically.

Management's Response: *District management will ensure that I-9 forms are completed and retained in employee personnel files.*

F. PAY RATE:

As part of our testing, we selected employees using the January 5, 2020 payroll register. We verified whether the employee's pay rate agreed to the rates listed per their contracted pay schedule/Board approved pay rate. During the testing of our samples of active, newly hired, and substitute employees, and employees receiving overtime or extra pay, **no exceptions were noted.**

G. LONGEVITY:

We selected 15 employees from the January 10, 2020 payroll register who received longevity pay. We performed procedures to determine whether the amount of longevity pay was properly supported. In addition, we obtained personnel files to verify the number of years worked and obtained the employees' contracts to determine the amount of longevity pay due to the employee. Lastly, we confirmed whether the expected amount of longevity pay based on the information gathered agreed to the rate paid to the employee on the payroll register. **No exceptions were noted.**

Issue #2: Although we noted no exceptions, through our review of the contracts, discussions with District staff, and our testing, we noted the procedures for calculating longevity are not formally documented and may be open to interpretation.

Further, we noted that FMLA (Family Medical Leave Act) can be either paid or unpaid, and unpaid FMLA is counted against longevity; however, only one attendance code is used for FMLA.

Risk: Employees may not be paid longevity properly. In addition, there is an increased risk of loss of historical knowledge.

Priority: Moderate

Recommendation: We recommend the District create formal documented procedures for the calculation of longevity, including what constitutes a break in service. In addition, we recommend the District create a second FMLA code to distinguish between paid and unpaid FMLA to facilitate tracking the leave for longevity calculations.

Management's Response: *District management will create formal documented procedures for the calculation of longevity, including what constitutes a break in service. In addition, the District will create a second FMLA code to distinguish between paid and unpaid FMLA to facilitate tracking the leave for longevity calculations.*

H. EMPLOYEES ON LEAVES OF ABSENCE, AND TERMINATED, RESIGNED, AND RETIRED EMPLOYEES:

We selected 14 employees who resigned, retired, or were terminated and 5 employees who were on an unpaid leave of absence (LOA) during the 2019-2020 school year. There were no terminations through January 2020. Our sample included 13 resignations, 1 retirement, and 5 employees on an unpaid LOA. From this sample, we performed procedures to determine whether each employee was removed from Payroll in a timely manner when compared to the effective last day of employment in the Board Agenda. We also confirmed whether these employees were listed as "inactive" in WinCap, if applicable. **No exceptions were noted.**

I. GENERAL LEDGER CODING:

As part of our testing, we reviewed the general ledger account code that was charged for each employee in our samples of active, newly hired, substitute employees, and employees receiving overtime or extra pay. The general ledger codes are initially entered by the Payroll department. Semi-annually, the Assistant Business Administrator reviews the account codes, and any errors identified in the coding are then corrected by Payroll. We compared the code number listed on the payroll register with the list of budget codes for 2019-2020 to ensure that the employees' payroll amount was posted to the correct account. **No exceptions were noted.**

II. PAYROLL:

A. TIMESHEETS:

We ensured that employees selected in our sample for whom a timesheet was required had completed a timesheet. Our review assessed whether the hours listed on the timesheet corresponded to the payroll register, and the pay rate listed on the payroll register agreed to their contracted pay. We also reviewed the timesheets to ensure they were signed off by either a supervisor or principal. During the testing of our samples of active, newly hired, and substitute employees, and employees receiving overtime or extra pay, **no exceptions were noted.**

Issue #3: Although we noted no exceptions in our testing, through our review of the noninstructional and custodial substitute timesheets, we noted that these timesheets do not indicate the reason for coverage and/or the employee for whom the substitute covered.

Risk: The District may be paying for substitute coverage that is not needed.

Priority: Moderate

Recommendation: We recommend that all substitute timesheets indicate the reason for coverage and/or the employee for whom the substitute is covering.

Management's Response: *District management is in the process of implementing an electronic time and attendance system. We will investigate the system's ability to add notes that indicate the reason for coverage and/or the employee for whom the substitute is covering.*

B. TAX WITHHOLDING:

It is Federal law for employers to obtain current tax withholding information from employees. As such, employees must complete and sign a withholding exemption certificate (Form W-4). In addition, NYSED requires that an employee's Form W-4 be retained for 4 years after a superseding certificate is filed or employment is terminated. Our review included verifying whether the District had a Form W-4 and a Form IT-2104 (if applicable) for all of our active and newly hired selections.

Issue #4: Out of the 35 active and 23 newly hired employees sampled, we noted one employee for whom the District did not maintain the Form W-4.

Risk: Failure to comply with Federal and State regulations.

Priority: High

Recommendation: We recommend that the District ensure all Form W-4s are completed and retained as required by law. The District should consider maintaining employee file documents electronically.

Management's Response: *District management will ensure all Form W-4s are completed and retained as required by law. The District has budgeted to begin implementing an electronic records management system in the 2020-21 fiscal year.*

C. DIRECT DEPOSIT:

NYSED requires that direct deposit records are to be retained for 5 years after authorization expires (i.e. the employee submits a new application to begin or terminate a direct deposit). As part of our test of active and newly hired employees, we identified whether employee compensation was received by means of direct deposit or a physical check. Our review included examining the direct deposit authorization form, tracing the information to the direct deposit listing provided by the District, confirming whether the employee was an active employee of the District through verification of the employee's file, and verifying

whether the funds were deposited to the bank account indicated by the employee for all of our active and newly hired selections receiving pay through direct deposit.

Issue #5: Out of the 35 active and 23 newly hired employees sampled, we noted 2 instances in which a direct deposit authorization form could not be located for an employee.

Risk: The District may be failing to comply with State retention regulations.

Priority: Moderate

Recommendation: We recommend that the District ensure a completed direct deposit form is maintained for every employee receiving pay via direct deposit as required by State law. The District should consider maintaining employee file documents electronically.

Management's Response: *District management will ensure a completed direct deposit form is maintained for every employee receiving pay via direct deposit as required by State law. The District has budgeted to begin implementing an electronic records management system in the 2020-21 fiscal year.*

In addition, we obtained the Payroll Deduction Report from WinCap for the January 10, 2020 payroll date which displayed those employees receiving pay via direct deposit and the direct deposit information. We identified those employees that were assigned more than one bank account, if any, and those employees who shared a bank account with another employee, if any. There were no employees assigned more than one account, however, we selected all 4 accounts in which more than one employee's pay was being deposited. We reviewed the personnel file of each selection to confirm the file contained documentation to substantiate his/her employment and confirmed the accuracy of the listing with the direct deposit form on file. **No exceptions were noted.**

D. ACCESS PERMISSIONS:

Access permission controls are intended to provide reasonable assurance that computer resources are protected from unauthorized use and modifications. We obtained a report of all users' access permissions within WinCap as of May 2020. As part of our review, we examined the access permissions established within WinCap to verify that access to Payroll and HR functions is adequately restricted to only those individuals responsible for inputting, updating and reviewing such data and that such users have access restricted to those permissions necessary to perform their job functions.

Issue #6: Based on the access capabilities reviewed, we noted that certain HR and Payroll staff had greater access capabilities than needed to perform their job function and/or could compromise proper segregation of duties.

We discussed the issue with management and the District has since restricted access further to align with users' job functions.

Risk: Unauthorized transactions may occur and not be readily detected.

Priority: Moderate-High

Recommendation: Although the District performs quarterly reviews of WinCap audit logs and access permissions, we are aware that the listing of access permissions is very detailed and can inhibit a thorough review. We recommend the District have its internal auditors perform a further review of this area.

Management's Response: *This issue will be discussed with the Audit Committee for consideration.*

We understand the fiduciary duty of the Board of Education, as well as the role of the internal auditor in ensuring that the proper control systems are in place and functioning consistently with the Board's policies and procedures.

Should you have any questions regarding anything included in our report, please do not hesitate to contact us at (631) 582-1600.

Sincerely,

Cerini & Associates LLP

Cerini & Associates, LLP
Internal Auditors