



**Patchogue-Medford
Union Free School District**

Review of Payroll and Human Resources

May 2020

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The Board of Education
Patchogue-Medford Union Free School District
241 South Ocean Avenue
Patchogue, NY 11772

Board of Education:

We have been retained to function as the internal auditor for the Patchogue-Medford Union Free 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.

PURPOSE

As part of the risk assessment performed at the District during the current school year, we recommended performing a review of the human resources and payroll processes. 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 has instituted measures to ensure 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.

Lastly, we 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, nVision, through January 2020 and consisted of the following:

- Active employees: 45 selections (including 20 receiving hourly or daily timesheet pay)
- Newly hired employees: 30 selections
- Substitute employees: 20 selections
- Overtime/extra pay: 30 selections
- Longevity pay: 15 selections
- Terminated/resigned/retired employees: 15 selections

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:

Annual salary notices are generated by the human resources (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 notice includes the employee's hire date, level and step, position, and contracted salary. Employees are required to return signed salary notices to the HR department. In addition to the annual salary notice, 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 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.

Issue 1: We noted 2 employee files that did not contain a fingerprint/criminal background check.

Risk: The District is not in compliance with regulations.

Level: Moderate

Recommendation: We recommend that the HR Department ensures that all files are complete with the required documentation needed for employment.

Management Response: *The two employees in question were hired by the District in 2005 and 2010 respectively. Human Resources is looking into the employees in question and will obtain the necessary paperwork. Since 2010, Human Resources has created and modified procedures to ensure employee paperwork is completed prior to an employee starting with the District, and that all pertinent paperwork is maintained in the employees' personnel file.*

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, newly hired, and substitute 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. **No exceptions were noted.**

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 active, new hires, substitutes, and other active employees. **No exceptions were noted.**

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.

i. Active, Newly Hired, and Substitute Employee Selections

The salaries for employees are stipulated within each employee's respective bargaining unit contract or individual contract which is approved by the Board. **No exceptions were noted.**

ii. Overtime/Extra Pay Selections

Through our review of overtime and extra pay (excluding longevity), we verified that all overtime/extra pay rates were paid in accordance with the respective contract or Board approval. **No exceptions were noted.**

G. LONGEVITY PAY:

We selected 15 employees from the January 3, 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.

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

Level: Moderate

Recommendation: We recommend the District create formal documented procedures for the calculation of longevity, including what constitutes a break in service.

***Management Response:** The Business Office will work with the Human Resources department to document how anniversary dates are calculated to determine an employees' years of service. The documentation will include what types of leaves affect an anniversary date, as well as which ones do not affect anniversary dates. The documentation will be broken down by employee group i.e. Teachers, CSEA Clerical staff, etc. and will include details as to whether one day off without pay affects seniority etc.*

H. TERMINATED, RESIGNED, AND RETIRED EMPLOYEES:

We selected 15 employees who resigned, retired, or were terminated during the 2019-2020 school year. Our sample included 11 resignations, 2 retirements, 1 termination, and 1 summer employee whose appointment ended. 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 nVision, if applicable. **No exceptions were noted.**

Auditor's Comment: We noted one summer employee whose appointment ended after the summer, but the employee was not inactivated in the payroll module timely. The employee's appointment end date in nVision was accurate and we confirmed the last pay check date of the employee was reasonable, which provides some assurance that the employee has not been paid inappropriately; however, it is best practice to timely inactivate a separated employee in the payroll module.

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 business manager 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:

Employees who are required to complete a timesheet utilize the nVision software application, Timepiece, to electronically sign-in and sign-out. Our review assessed whether the hours worked according to Timepiece agreed to the payroll register and that the hours worked were approved by the appropriate supervisor and business administrator, where applicable. During the testing of our samples of active, newly hired, and substitute employees, and employees receiving overtime or extra pay, we noted the following:

Issue 3: Substitute employees' timesheets did not always indicate the employee for whom the substitute was covering or the reason for coverage.

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

Level: Moderate

Recommendation: We recommend all substitute employee timesheets indicate the reason for coverage or the employee for whom the substitute is covering, if applicable.

Management Response: *The Human Resources Department in connection with the Business Office will send a memo out to Administrators, Operational Supervisors and Lead Building/Department Clericals to ensure that all absentee reports submitted include the names of the subs that are filling in for staff that are absent to ensure that the reason for the substitute or the employee for whom the substitute is covering is documented.*

Issue 4: We noted one timesheet that was approved by a supervisor, but the business administrator's approval was not evident. We were informed that the timesheet was submitted late. Since the timesheet was approved by the employee's supervisor, the District paid the employee prior to receiving the business administrator's approval to ensure the employee was paid on the appropriate payroll date.

Risk: The District may pay employees for time that is not approved.

Level: Moderate

Recommendation: We recommend all employee timesheets receive all required approval prior to paying the employee. If supervisor approval is sufficient to pay those employees that currently require business administrator approval, the District should discontinue the process of requiring such additional approval.

Management Response: *The School Business Administrator will remind payroll department staff that all claim forms must be signed prior to payment, and that a late submitted overtime claim form needs to follow the same protocols as those submitted on time. In the event that a claim form is submitted late, and approval cannot be obtained by the School Business Administrator or his designee, prior to payroll being processed, the claim form will be paid on the next available payroll.*

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.

i. Active Employees

Through our testing of active employee selections, we noted the following:

Issue 5: There was 1 instance in which an employee's Form W-4 was unable to be located, however, through review of the payroll register selected, we noted that taxes were being withheld.

Risk: The District may not be withholding the proper amount of taxes. In addition, the District may be failing to comply with Federal regulations and State retention regulations.

Level: Moderate

Recommendation: We recommend that the District ensure all Form W-4s are retained as required by law.

Management Response: *The employee in question was hired by the District in 1993. The District has since created procedures whereby the employee W-4 form is also maintained in the employee personnel file with the new-hire paperwork.*

ii. Newly Hired Employees

Through our testing of newly hired employee selections, we noted that District has retained all the necessary tax withholding information forms for our selections. **No exceptions were noted.**

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. For those employees receiving their pay through direct deposit, we examined the direct deposit authorization form, traced the information to the direct deposit listing provided by the District, confirmed that the employee was an active employee of the District through verification of the employee's file, and verified whether the funds were deposited to the bank account indicated by the employee. **No exceptions were noted.**

Auditor's Comment: District procedure is to have an employee fill out a direct deposit form when electing to receive pay through direct deposit and when making changes to direct deposit information. We noted one employee for whom the District is depositing pay into a bank account other than the account listed on the employee's direct deposit form. Although we noted that the employee's file contained a voided check with the bank account currently being used, the District should ensure direct deposit forms are completed in accordance with District procedure.

In addition, we obtained the Direct Deposit Participant Listing from nVision as of February 11, 2020 and 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 5 of the 11 employees who shared a bank account with another employee. 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.**

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