



PUTNAM VALLEY CENTRAL SCHOOL DISTRICT HUMAN RESOURCES AND PAYROLL INTERNAL AUDIT

Date: August 31, 2016

To: Ms. Jeanine Rufo, President, Board of Education

From: David Moran, Director of Education Practice

Cc: Audit Committee
Natalie Doherty, Assistant Superintendent
Jill Figarella, District Treasurer
Dr. Frances Wills, Superintendent

Subject: Human Resources and Payroll Internal Audit

Background

We have applied certain financial, compliance and operational audit procedures to the Human Resources and Payroll functional areas of Putnam Valley Central School District (the “District”). As a result of our most recent Risk Assessment Report, the Audit Committee recommended this area for an in-depth review to determine ways to improve procedures, and establish increased accountability and stronger internal controls.

Audit Scope

Our responsibility was to assess the adequacy and effectiveness of internal controls over certain processes within the Human Resources and Payroll functional areas. We reviewed the period from July 1st 2015 through May 31st 2016. A detailed description of audit work performed is presented in the “Summary of Audit Procedures Performed” section of this report. These audit procedures performed are in accordance with *The International Standards for the Professional Practice of Internal Auditing* promulgated by the Institute of Internal Auditors.

Executive Summary

As a result of the work performed, we noted the following observations that resulted in recommendations designed to improve internal controls and enhance operating policies and procedures. The following recommendations were made:

1. The District should institute a formal acknowledgement process that the IT (Information Technology) privileges/accesses are deactivated when an employee is terminated.
2. The District has established adequate controls over its payroll process and should continue to reinforce staff awareness and compliance with established protocols.



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3. The District has established adequate controls over timekeeping and attendance, and should continue to reinforce staff awareness and compliance with established protocols.

As a result of the work performed, observations were made that resulted in recommendations designed to improve internal controls and enhance operating policies and procedures. Based on the results of the procedures performed, the internal control structure is rated as “*Satisfactory*.” The internal audit rating structure is defined below:

Satisfactory Indicates an acceptable system of internal control and satisfactory compliance with applicable policies, procedures and regulatory requirements. Findings indicate modest weaknesses that require management's attention.

Needs Improvement Indicates weaknesses in the system of internal control and/or compliance with related policies, procedures and regulatory requirements. These findings require management's prompt resolution to prevent further deterioration and possible losses.

Unsatisfactory Indicates significant weaknesses in the system of internal control and/or compliance with related policies, procedures and regulatory requirements. Management's immediate attention to these findings is required to prevent potential loss to the institution.

We would like to thank the management and staff of the District for the assistance and courtesy extended to us during the course of our audit.

Very truly yours,

A handwritten signature in cursive script that reads "Accume Partners".

Accume Partners



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Summary of Audit Procedures Performed

- Procedure 1- Reviewed the District's Board Policies and Department level Human Resources and Payroll policies and procedures.
- Procedure 2- Interviewed District management and staff: Superintendent, Assistant Superintendent for Pupil Personnel and Human Resources, District Treasurer, District Clerk, Payroll and Benefits Clerk, Human Resources Office Assistant, Office Assistant, Network Administrator and CIO and the Claims Auditor.
- Procedure 3- Reviewed and tested a sample of 10 randomly selected new employees' files for compliance with on-boarding documentation requirements in FY15/16.
- Procedure 4- Reviewed and tested a sample of 10 randomly selected new employees' files for compliance with employee selected benefits' documentation in FY15/16.
- Procedure 5- Reviewed and tested all payroll changes originating from approved teacher course approvals' "lane changes" in FY15/16.
- Procedure 6- Reviewed and tested documentation required for all teachers granted tenure in FY14/15 and FY15/16.
- Procedure 7- Reviewed and tested documentation required for all employee terminations in FY14/15 and FY15/16.
- Procedure 8- Reviewed and tested a sample of 16 randomly selected employees' time sheets/attendance records in FY15/16.
- Procedure 9- Reviewed and tested a sample of 10 randomly selected employees' stipend payments in FY15/16.
- Procedure 10- Reviewed and tested a sample of 4 randomly selected payrolls in FY15/16.
- Procedure 11- Reviewed and tested the FY15/16 3rd quarter's federal payroll taxes.



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**Recommendations to Enhance the System Of
Internal Controls and Improve Operating Procedures**

AREA: HUMAN RESOURCES

Observation:

Internal Audit reviewed the internal controls over obtaining, verifying, and processing of personnel information at the District. Specifically, we reviewed the procedures for processing New Hires, Terminations, Tenure, and changes in Employee Status and Pay related to contracts, stipends, and lane changes. To do so, we interviewed staff, and reviewed existing policies and procedures, as well as the use of standard transaction forms. Also, we randomly selected 39 District employees (20 New Hires, 12 Terminations, and 7 Tenures) to test. We obtained their personnel files, personnel transaction forms, board meeting minutes, contracts, and other related information to ensure the hire, compensation, and termination of District employees was in compliance with Human Resources procedures, Board Policies and applicable laws and regulations. We found no significant exceptions.

Internal Audit noted that the Human Resources function utilizes a New Hire Checklist to process new hires. In addition, Human Resources staff input the employee's position and salary rate into the Human Resources Module of the Finance Manager System. Subsequently, Payroll staff verifies the inputs, as they are copied on all approved personnel transactions. These procedures are examples of Best Practices. However, in our testing we found the following exceptions:

- Although the IT (Information Technology) privileges/accesses are deactivated when an employee is terminated, there was no formal advice of action taken and date of action.

School District Risk and/or Opportunity:

The District should adequately maintain its personnel records, including files, checklists, documents, and other information. Adequate documentation ensures that all the necessary information and approvals were obtained to properly process District employees. The District should require and accept only official transcripts to verify educational credits and degrees. In addition to checklists, an independent review of processing District employees in the business management system protects against data entry errors. Proper internal controls dictate that key processes have a preparer and an independent reviewer. In general, an independent review is a detective control that adds to the overall strength of the control environment. Management's supervisory role over processing of information into the business management system as well as final review of checklist items helps to ensure the integrity of the data held within the system, and helps to ensure that all documents were obtained, and all steps have been completed, such as Board



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approval, for properly processing employees into or out of the Districts' manual and automated systems.

Recommendation:

1. The District should institute a formal process to document that the IT (Information Technology) privileges/accesses are deactivated when an employee is terminated.

Management's Response: The District is now producing written documentation of deactivated IT resources upon an employee's termination.

Proposed Implementation Date: 8/30/16

Responsible Party: Michael Lee

AREA: PAYROLL

Observation:

Internal Audit reviewed the procedures for processing, verifying, and certifying the District payroll. Specifically, we reviewed the procedures for inputting payroll transactions into the system, processing bi-weekly payroll, reconciling and certifying payroll, and payment of quarterly federal and state payroll taxes. To do so, we interviewed staff, and reviewed existing policies and procedures, as well as the use of standard transaction forms. Also, we randomly selected 16 employees from four bi-weekly pay periods to test; tested the reconciliation and certification of four payroll periods; and selected one quarter's payroll tax forms to test. Similarly we randomly selected 10 stipends to test. We found no significant exceptions.

Internal Audit noted that the Board approved Payroll Certifier (District Treasurer) and the Payroll and Benefits Clerk both sign/certify the Payroll Register; timesheets (where required) are signed both by Employee and Supervisor, and the District Treasurer reviews all payroll changes from the previous period's payroll, prior to posting final payroll. These procedures are examples of Best Practices.

School District Risk and/or Opportunity:

In addition to checklists, an independent review of processing District employees in the Finance Manager System protects against data entry errors. Proper internal controls dictate that key processes have a preparer and an independent reviewer. In general, an independent review is a detective control that adds to the overall strength of the control environment. Management's



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supervisory role over processing of information into the Finance Manager System as well as final review of payroll reports helps to ensure the integrity of the data held within the system, and helps to ensure that all documents were obtained, and all steps have been completed, such as Board approval, for properly processing an employee's pay.

The District should insure that all employees evidence their work on critical reports, either as the preparer or as the independent reviewer. Such actions will not only help to prevent errors but will also serve to ensure that the transaction was valid, was entered correctly, and appropriately approved.

Recommendation:

2. The District has established adequate controls over its payroll process and should continue to reinforce staff awareness and compliance with established protocols.

No Management's Response Required

AREA: TIMEKEEPING AND ATTENDANCE

Observation:

Internal Audit reviewed the procedures over Timekeeping and Attendance for those employees (p who are required to submit timesheets. For our review, we randomly selected 16 employees from four separate payroll periods. We reviewed the employees' timesheets and/or attendance records and the final payroll register of the corresponding pay period to ensure that the time worked was properly reported, the timesheets were signed by the employees and approved by the Supervisors, and the pay was correctly processed. We found no significant exceptions.

Internal Audit noted that the District maintains a segregation of duties for Timekeeping and Attendance by utilizing business office personnel other than the Payroll and Benefits Clerk and/or multiple reviews when entering employee time and attendance into the payroll system. Also, the District utilizes the Aesop on-line tracking system whereby employees can directly enter absences, requests for time off, sickness, grading days, and personal days. This data must be approved by the employees' supervisors before it is entered into the payroll system.

School District Risk and/or Opportunity:

In general, proper internal controls help to ensure that adequate supervisory control and oversight is established over a given process. Proper internal controls over timekeeping gives Management greater assurance that staff is only paid for time worked. In addition, inaccurate time reporting could result in excessive salary expense or violation of wage and hour laws.



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Proper internal controls over attendance helps to ensure that staff absences are recorded, leave accruals are calculated appropriately, and the appropriate leave balances are rolled over from one year to the next. A proper absence reporting system can facilitate the maintenance of attendance. In general, this system allows District staff to report absences and find substitutes in a timely and efficient manner. In addition, the system helps to ensure staff leaves are scheduled with minimal disruptions to school operations.

Accurate attendance records are important and help prevent improper separation payments made to employees retiring or resigning from their positions. By requiring staff to sign their timesheets, sign-in sheets, leave requests, and yearly attendance cards, the District increases accountability over the timekeeping and attendance process.

Recommendation:

3. The District has established adequate controls over timekeeping and attendance, and should continue to reinforce staff awareness and compliance with established protocols.

No Management's Response Required