



Longwood Central School District

Report on Human Resources and Payroll

2017 - 2018 School Year

Presented to the Audit Committee 10/18/2018

October 2018

The Board of Education
Longwood Central School District
35 Yaphank Middle Island Road
Middle Island, NY 11953

Board of Education:

We have been retained to function as the internal auditor for the Longwood 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.

PURPOSE

As part of the risk assessment performed at the District during the 2014-2015 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 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 forms are maintained in the personnel files;
- the employee was not currently on unpaid leave; and
- the 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/leave of absence (LOA) employees.

Our testing consisted of the following:

- Active employees: 42 selections (including 14 receiving hourly pay)
- New hires: 20 selections
- Substitutes: 20 selections
- Overtime/Extra pay: 30 selections
- Longevity pay: 15 selections
- Terminated/resigned/retired/LOA 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 areas where internal controls could be improved.

The detailed results of our review are included in Sections I, II, and III 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 notices include 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 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, new hires, substitutes, and employees receiving overtime and extra pay, we noted that all 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. *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 SAVE fingerprinting law, which became effective February 1, 2001, when all new employees who were hired with effective dates after February 1, 2001 must also have a fingerprint check done. In addition, instructional staff and nurses are required to be properly licensed/certified as required under New York State Education Department guidelines. Through our review of our active employee selections, newly hired employee selections, and our substitute employee selections, we confirmed 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 was eligible to be a member of the ERS or TRS, their personnel folder should contain documentation of declination or acceptance into the system. The New York State Education Department (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. We examined each employee'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.

i. **Active Employees and New Hires**

Through our testing of active employees and new hires, we noted the following:

Issue 1: There was 1 employee whose file did not contain evidence that he/she were informed about the ERS and 1 employee whose file did not contain evidence that he/she were informed about the TRS. In addition, we noted that these employees did not have ERS/TRS contributions being deducted from their paychecks.

Risk: The Districts could be obligated to retroactively compensate the employee for the benefit not provided as the District may be failing to comply with State retention regulations.

Level: High

Recommendation: We recommend that the District ensure every employee is notified of the ERS/TRS and such notification is documented and maintained in the employee files as required by State law.

E. CITIZENSHIP VERIFICATION DOCUMENTS:

The Immigration Reform and Control Act ("IRCA") made all employers responsible for verifying employment eligibility and identification of all employees hired after November 1986. The law requires employers to complete Employment Eligibility Verification forms

(Form I-9) 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 verified whether Form I-9s were properly completed during our testing of new hires, substitutes, and other active employees.

Issue 2: Out of the 42 active employee selections, we noted 2 employees for whom the District did not maintain the Form I-9. In addition, during our testing of the 20 substitute and 20 new hire employee selections, we noted 1 additional employee for whom the District did not maintain the Form I-9. Furthermore, we noted instances where Section II of Form I-9 was not signed by a District official.

Risk: Failure to comply with Federal regulations and State retention regulations.

Level: High

Recommendation: We recommend that the District ensure all Form I-9s are completed and retained as required by law.

F. PAY RATE:

As part of our testing, we selected employees using the January 5, 2018 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 Employees, New Hires, Substitutes

The salaries for most employees are stipulated within each of the respective bargaining unit contracts which are approved by the Board. However, substitute employees' pay rate is stipulated by the District's Board-approved Fee Structure. The fee structure also dictates when substitute teaching staff receive an increase in pay rate. The District has contracted with an outside consultant to track substitute time worked and is instructed by the outside consultant when to increase each substitute's pay rate. Through our testing of active, newly hired, and substitute employees, we noted the following:

Issue 3: The consultant uses AESOP (an absence management/substitute staff application) to track substitute pay and create a pay schedule. We also noted that Payroll compares the pay schedule from the consultant to the attendance records provided by the buildings and will not pay a substitute if there is no proof of attendance for the days claimed. However, we noted 3 instances in which substitute teaching staff were not paid in conjunction with the Board-approved Fee Structure. Further analyses disclosed that Payroll did not adjust the start date of the increased pay rate after a discrepancy in attendance was noted.

Risk: The District may be incorrectly paying substitute teaching staff.

Level: Moderate

Recommendation: We recommend that the Human Resources department (HR) reconcile the attendance records provided by the buildings to the pay schedule

provided from the consultant. In addition, we recommend that should HR find a discrepancy between its attendance records and those of the consultant's, HR should be rectifying the pay schedule to coincide with any adjustments made in conjunction with the discrepancy when providing the schedule to Payroll.

Our review of other District employees (i.e. those other than substitute teaching staff) did not disclose any exceptions.

ii. Overtime & Extra Pay Selections

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

G. LONGEVITY PAY:

We selected 15 employees from the January 5, 2018 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.*

Auditor's Comment: During our testing, we noted that the terms defined in District-bargaining unit contracts are not specific with regard to the effect of leaves of absence on eligibility for longevity. The District should ensure the details surrounding longevity pay are better defined in order to create consistency year-over-year and to avoid ambiguity or misinterpretation of the contract terms.

H. TERMINATED, RESIGNED, RETIRED & LOA EMPLOYEES:

We selected 15 employees who resigned, retired, were terminated, or went on a LOA during the 2017-2018 school year. Our sample included 10 resignations, 1 termination, and 5 employees on 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 Report. We also confirmed whether these employees were listed as "inactive" in nVision, if applicable. *No exceptions were noted.*

Auditor's Comment: During our testing, we noted one instance in which an employee was retired but not listed as such in nVision. In addition, we noted this employee was properly listed as "Payroll active" in nVision since the employee was rehired as a substitute. However, the employee was listed as "HR inactive." Although this status does not inhibit the employee from receiving pay due him/her, the District should ensure its HR module correctly displays an employee as "HR active" if he/she is still working in the District. The District should also ensure the status is accurately listed in nVision for each employee (e.g. retired, resigned, terminated).

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 and newly hired employees, substitutes, and employees receiving overtime or extra pay. General Ledger Coding is 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 2017-2018 to ensure that the employees' payroll amount was posted to the correct account. *No exceptions were noted.*

J. EMPLOYEE FILE MAINTENANCE:

As part of our review, we assess whether internal controls established by HR are sufficient to ensure employees are paid in accordance with their respective bargaining unit contracts and whether documentation exists to support their employment. This requires the staff to maintain records which are kept in the personnel files.

Auditor's Comment: The District can improve the organization of the personnel files to ensure employment and payment documentation can be easily found to identify whether documents (i.e. Form W-4, Form I-9, Board approvals, etc.) are not in the files. In addition, the District can increase efficiency by implementing an electronic filing system for personnel files which would allow the District to easily search for, access, and maintain employee files in one secure location. We are aware the District is in the process of scanning certain documents into the District's financial application software, nVision. We commend the District in its effort to digitize its process.

II. PAYROLL:

A. TIMESHEETS:

Employees who are required to complete a timesheet utilize the Finance Manager software application, Timepiece, to electronically sign-in and sign-out. Our review assessed whether the time within Timepiece agreed to the payroll register and that the time entered was approved by the appropriate supervisor. *No exceptions were noted.*

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 Form W-4. In addition, NYSED requires that an employee's withholding exemption certificate (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 an IT-2104 form (if applicable) for all employees tested on our New Hires' Test and Active Employees' Test.

i. Active Employees

Through our testing of active employees, we noted the following:

Issue 4: 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: High

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

ii. New Hires

Through our testing of newly hired employees, 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, we identified whether employee compensation was received by means of direct deposit or a physical check. If an employee utilized the direct deposit option, we examined the direct deposit authorization form, traced the information to the direct deposit listing provided by the District, confirmed whether the employee was an active employee of the District, and verified whether the funds were deposited to the bank account indicated by the employee.

Issue 5: We noted 8 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.

Level: 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.

III. BUSINESS OFFICE:

A. ACCESS & PERMISSIONS:

The District's financial software application, nVision, establishes permissions based on a user's roles and responsibilities. As part of our review, we examined the access permissions

established within nVision to verify that access to payroll and HR functions is adequately restricted to only those individuals responsible for inputting, updating and reviewing such data. *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