

**Pelham Union Free School District**  
**Independent Accountant's Report On**  
**Applying Agreed-Upon Procedures**  
February 19, 2018



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**INDEPENDENT ACCOUNTANT'S REPORT ON  
APPLYING AGREED-UPON PROCEDURES**

To the Board of Education and Audit Committee  
Pelham Union Free School District  
Pelham, New York

We have performed the procedures described in the following pages, which were agreed to by the Pelham Union Free School District (District), on the payroll and accounting areas of the District during the period of January 1, 2017 through November 30, 2017.

The District's management is responsible for administering this area.

This engagement to apply agreed-upon procedures was performed in accordance with attestation standards established by the American Institute of Certified Public Accountants. 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 the District's payroll and accounting areas. 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*

February 19, 2018

**PELHAM UNION FREE SCHOOL DISTRICT**  
**Report on Applying Agreed-Upon Procedures**  
For the Period Ended November 30, 2017

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**Introduction:**

This report is categorized by function (i.e., Payroll, Bank Reconciliations and Accounting), and there are five sections under each function 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, 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 Corrective Action Plan (CAP) along with the respective Internal Audit Report via the NYSED portal.

**PELHAM UNION FREE SCHOOL DISTRICT**  
**Report on Applying Agreed-Upon Procedures (Continued)**  
For the Period Ended November 30, 2017

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**PAYROLL**

**Background:**

Good business practice requires that the District establish proper segregation of duties and adequate controls over the payroll function. 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, to name a few.

As in all school districts, payroll is the largest expenditure at the District. The Payroll Department (Department) has 1 full-time employee, a Junior Accountant, who handles primarily all of the District's payroll processing and a second employee that devotes approximately 20% of her time working on payroll related tasks. The District utilizes the Finance Manager (FM) financial system 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.

There appears to be adequate segregation of duties related to payroll changes. New hires are initiated in the system by someone other than the Junior Accountant. Changes made to the payroll by the Junior Accountant are reviewed by the Staff Assistant for Finance and Administration.

**Summary:**

We found that there were adequate controls over payroll processing. We found some opportunities to further improve operations as a result of our engagement. These items are described further in the findings and recommendations sections below.

**Procedures:**

Our procedures as agreed to by the District were as follows:

- Review Board policies and District procedures related to the payroll functions.
- Interview Business Office personnel regarding policies, procedures and systems in effect.
- Review the current payroll cycle process and identify the strengths, weaknesses and key control attributes for testing.
- Perform a payroll reconciliation from one cycle to the next during this fiscal year. On a test basis, review supporting documentation for all activities in one of the payrolls.
- Review all collective bargaining agreements and a sample of individual employment agreements to understand the terms and conditions.
- Review payroll related activity for the time period under review as follows:
  - For contractual payments – select sample of 50 payments to ensure amount paid agrees to employee records and contract (if applicable) and compare all amounts withheld for taxes, benefits, etc. to supporting documentation.
  - For non-salary payments (i.e., hourly, stipend, overtime, etc.) during that time period – select sample of 50 payments to ensure proper approval and amount.

**PELHAM UNION FREE SCHOOL DISTRICT**  
**Report on Applying Agreed-Upon Procedures (Continued)**  
For the Period Ended November 30, 2017

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- For separation payments – select a sample of 5 payments to ensure final amounts 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 to specifications in the respective contract.
- For disbursements to third parties as a result of withholdings (i.e., union dues, taxes, etc.) during that time period – select all third party payments from the 2 payroll cycles selected for the reconciliation testwork and ensure all monthly payments are captured.
- For changes to the payroll module data during that time period – select a payroll change report for 2 payrolls and, on a test basis, ensure all 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 these payments from 1 pay cycle during that time period to ensure accuracy and completeness, as well as reconcile these payments to the permanent teachers' absences and ensure the absence is recorded. Based on the results, determine if a reconciliation process needs to become a regular procedure.
- For 1 recent payroll, have District administrative staff confirm that the employee payroll expense is charged to the correct budget codes.

**Findings:**

Review of Board policies and District procedures, along with interviews with employees related to the payroll function noted:

- The District does not have a Board of Education (Board) policy for the administration of payroll, which would document the items that require Board approval prior to payment, the individual responsible for certifying the payroll, etc.
- The Payroll Department does have several detailed written procedures for payroll processes, including the direct deposit process, monthly state reporting, Trust & Agency payments, payroll wire transfers, timesheet processing, etc.

Review of the payroll reconciliation from one cycle to the next during this fiscal year noted:

- We reviewed the Payroll Comparison Report for the October 31, 2017 payroll. We noted the Junior Accountant had made notes related to changes entered into that payroll. This report is provided to the Assistant Superintendent for Business to use for his review of the payroll. No exceptions were noted.

Review of collective bargaining agreements noted:

- See below for comment related to contract language.

Review of 50 contractual payments to ensure amount paid agrees to employee records and contract noted:

- No exceptions were noted.

Review of 50 non-salary payments (i.e., hourly, stipend, overtime, etc.) during that time period to ensure proper approval and amount noted:

- Payment to a leave replacement paid as a per diem employee was paid at an incorrect calculated daily rate. He was paid at \$179 per day, but should have been paid at \$180.39. The calculation was not documented, therefore it could not be double checked by a second employee.
- All stipends for extra pay items such as coaching, extraclassroom club advisors, etc. are not entered into FM as a separate appointment with an attached pay schedule; they are paid as a one-time payment.

**PELHAM UNION FREE SCHOOL DISTRICT**  
**Report on Applying Agreed-Upon Procedures (Continued)**  
For the Period Ended November 30, 2017

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- We noted that the schedule sent to the Payroll Department with instructions for payment for employees working a 6<sup>th</sup> period is emailed by a staff member from the Curriculum, Instruction and Personnel Department. We were informed that the schedule is reviewed with the Assistant Superintendent for Curriculum, Instruction and Personnel, but is not formally approved on the spreadsheet sent to the Payroll Department. Also, there is no requirement for the building Principal to review and approve these payments.

Review of 5 separation payments to ensure final amounts are correct, proper documentation is on file and compliance to specifications in the respective contract, noted:

- Separation payments are prepared by the Junior Accountant, based upon information from the Personnel/Superintendent's Office. They are reviewed by the Staff Assistant for Finance & Administration; forwarded to the Assistant Superintendent for Business for final review and approval prior to payment. Any supporting documents are attached.
- In one instance an employee was properly paid for vacation days per contract language; however, the employee's attendance balances were not adjusted. This could have resulted in the employee being overpaid.

Review of disbursements to third parties as a result of withholdings (i.e., union dues, taxes, etc.) during the time period noted:

- There were no exceptions noted.

Review of a payroll change report for 2 payrolls noted:

- One employee was hired June 5, 2017 and was moved up a step in July 2017, after being with the District for less than one month. There is no language in the custodial contract to determine when an employee moves up a step based on their hire date. We were informed that the Junior Accountant consulted with the Interim Assistant Superintendent for Business and was informed to move the employee up a step in July. Additionally, we reviewed other bargaining unit contracts and noted there is no language in the teachers' contract regarding criteria for annual step advancement.

Review of substitute teacher payments and the absence for the teacher that they filled in for noted:

- Each school sends the Junior Accountant a listing of teachers absent during the period and the substitute that covered the teacher, along with the approved timesheets. The Junior Accountant prepares a spreadsheet by day of the individuals being paid to ensure that there are no duplicate entries for a substitute on any given day. The Junior Accountant also reviews and recalculates each substitute timesheet prior to entry into FM. The Staff Assistant for Finance and Administration reviews these payments.
- There were no exceptions noted. For the payments sampled, all absences were properly recorded and all substitutes were properly paid.

**PELHAM UNION FREE SCHOOL DISTRICT**  
**Report on Applying Agreed-Upon Procedures (Continued)**  
For the Period Ended November 30, 2017

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Review of 1 recent payroll, that employee payroll expense is charged to the correct budget codes noted:

- Employee listings were sent to each school building/department for the appropriate staff member to review to ensure that all employees assigned to the building worked in that location and that they were being charged to the appropriate budget code.
- One adjustment was made for a teacher that was budgeted to work at the MS, but was switched to the Colonial Elementary School at the start of the school year; however, the teacher's budget code had not been updated.

**Recommendations:**

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

1. The District should develop a policy related to the processing of payroll, which would specify the items that require Board approval prior to payment, the individual responsible for certifying the payroll, etc.
2. Procedures should be developed for instances where there is a manual calculation related to a daily rate, the calculation should be documented and reviewed by a second person.
3. All stipends for items such as coaching, extraclassroom club advisors, etc. be entered into FM as separate appointments with an attached pay schedule. The District should review this item when moving to nVision this spring.
4. The schedule sent to the Payroll Department for employees working a 6<sup>th</sup> period should be prepared by the staff member in the Curriculum, Instruction and Personnel Department and be reviewed and approved by the Assistant Superintendent for Curriculum, Instruction and Personnel. This payment should also be reviewed and approved by the building Principal.
5. Procedures should be put in place for when benefits days are paid out to employees per contract language and the employees' attendance balances should be updated on a timely basis.
6. The District should work with the various bargaining units to document the criteria for employee advancement on the salary tables.
7. Develop procedures for Business Office personnel to confirm on an annual basis with an administrator from each building/department that all employees working in that building/department are charged to the correct budget code.

**BANK RECONCILIATIONS**

**Background:**

The Staff Assistant for Finance & Administration (SAF&A) prepares all bank reconciliations. The SAF&A prints all bank statements from the bank website or receives the bank statements in the mail. The SAF&A prints out a trial balance to use to record book balance in the reconciliation, this is compared to the bank balance (usually the only difference is unposted interest). The District uses the bank reconciliation module in FM that lists all outstanding checks. The SAF&A reviews the bank statement and clicks off each check in FM that cleared the bank. Additionally, any voided checks are cleared. The Outstanding Checks Listing from FM is printed and attached to the bank statement and the bank reconciliation. The reconciliation is signed by the SAF&A. The Treasurer reviews and approves all bank reconciliations and prepares a monthly Treasurer's Report for the Board of Education.

**PELHAM UNION FREE SCHOOL DISTRICT**  
**Report on Applying Agreed-Upon Procedures (Continued)**  
For the Period Ended November 30, 2017

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Additionally, for the School Lunch Fund account, the SAF&A reconciles all pre-paid deposits from a listing from My School Bucks and all deposits recorded on the Dine Central Report received from the Food Service Director; each receipt is agreed to the bank statement to ensure that they agree.

As an added control, the District uses Positive Pay which is an automated system in which the bank is notified of all checks produced for both General Fund and Payroll checks. This allows the bank to verify that a check is legitimate before remitting funds.

**Summary:**

Overall we found there were good controls over bank reconciliations. We have no recommendations related to bank reconciliations.

**Procedures:**

As per the engagement letter we performed the following:

For each cash account select 2 months for testing and perform the following:

- Obtain a detail general ledger activity report for the period and trace a sample of entries to supporting documentation or the financial sub-system that generated the entry. For entries that are not generated from the financial system, we will identify the person processing the entry and consider the internal control ramifications.
- Audit the bank reconciliations for each account and trace reconciling items to the subsequent month's bank statements or general ledger as appropriate.
- Compare balances in the treasurer's report for the 2 months selected to the general ledger and obtain explanations for any variances.

**Findings:**

Review of 2 months of general ledger activity for cash accounts to bank account noted:

- No exceptions were noted.

Review of the bank reconciliations for each account and trace reconciling items to the subsequent month's bank statements or general ledger as appropriate noted:

- No exceptions were noted. We found all bank reconciliations sampled were reviewed and approved in a timely fashion and we were able to trace any reconciling items to the following month's bank statements.

Review of balances in the Treasurer's Report for the 2 months selected to the general ledger noted:

- The balances in the Treasurer's Report agreed to balances in the general ledger for all accounts.

**Recommendations:**

There are no recommendations related to bank reconciliations:

**PELHAM UNION FREE SCHOOL DISTRICT**  
**Report on Applying Agreed-Upon Procedures (Continued)**  
For the Period Ended November 30, 2017

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**ACCOUNTING**

**Background:**

**Budget Transfers**

Budget transfers are used to move funds from one budget code to another budget code. To request a budget transfer, the Administrator responsible for the budget code is required to forward a completed Budget Transfer Form to the Assistant Superintendent for Business. The Budget Transfer Form must be approved by the Assistant Superintendent for Business, the building Principal, and the Superintendent. Once approved, the Budget Transfer Form is forwarded to the Senior Account Clerk in the Business Office to enter the budget transfer in FM. If the transfer amount is greater than \$25,000 (alone or in the aggregate with other transfers in that code) or 25% of the aggregate budget code, the budget transfer must be approved by the Board. If the transfer requires BOE approval, it is placed on an upcoming BOE agenda and the Administrator must wait until BOE approval is obtained before proceeding with the requisition. Once approved, the transfer is recorded in FM by the Senior Account Clerk.

On a monthly basis, the Treasurer runs a Negative Account Status Report in FM for the General Fund. The report is reviewed line-by-line. If a budget transfer is needed, the Treasurer determines whether the transfer needs Board approval or Administrator approval only based on the criteria in the Board Policy. If the budget transfer requires BOE approval, it is included on a resolution for an upcoming Board meeting. If the budget transfer does not require BOE approval, the Treasurer completes a Budget Transfer Form. The form is circulated to the Assistant Superintendent for Business and the Superintendent for review and approval. The authorized form is provided to the Senior Account Clerk in the Business Office to post the transfer in FM.

**Journal Entries**

The Treasurer is responsible for posting all journal entries in FM; the journal entry is printed and attached to the backup documentation. Periodically, the Assistant Superintendent for Business reviews and approves the journal entries.

**Wire Transfers:**

Wire transfers are used to move District funds from one bank account to another or to wire certain employee payroll withholdings to third party vendors. All wire transfers are processed by the District Treasurer in the bank website, using a unique login, password and a token (random number generator). Upon processing the transfer online, the Treasurer prints out a confirmation and provides it to the Assistant Superintendent for Business to review and approve. The Treasurer is only able to make transfers to accounts previously established within the banking system.

To set up a new template in the bank's website, two employees must be involved in the process. The Treasurer sets up any new templates for new vendors in the bank's website. The Assistant Superintendent for Business must then log in and approve the new template. After the new template has been approved, the Treasurer can process a wire transfer using the new template.

**PELHAM UNION FREE SCHOOL DISTRICT**  
**Report on Applying Agreed-Upon Procedures (Continued)**  
For the Period Ended November 30, 2017

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**Summary:**

Overall we found there were good controls over budget transfers, journal entries and wire transfers. We noted an opportunity to improve the approval process for confirmation of wire transfers. See below for specific findings.

**Procedures:**

We performed the following procedures as per the engagement letter:

- Review the wire transfer process to ensure that the procedures include strong controls (e.g., restrictive templates, independent approver, etc.) and proper supporting documentation. Select a sample of 15 wire transfers processed during the period for review.
- Review budget transfers during the period and account for sequence, proper approval and supporting documentation.
- Review journal entries during the period and account for sequence, proper approval and supporting documentation.

**Findings:**

Review of the wire transfer process to ensure that the procedures include strong controls (e.g., restrictive templates, independent approver, etc.) and proper supporting documentation noted:

- There are a few instances where the Assistant Superintendent for Business did not sign off on the wire transfer confirmation; however, we noted that he approved the journal entry. The signature on the journal entry did not include a date; therefore, we were unable to determine if this was approved timely.

Review of budget transfers during the period and account for sequence, proper approval and supporting documentation noted:

- We reviewed 5 budget transfers during the period, we noted they were properly approved, including Board of Education approval where required and there was appropriate explanations for the transfers.

Review of journal entries during the period and account for sequence, proper approval and supporting documentation noted:

- We noted that there were breaks in the sequence of journal entries; however, we were able to obtain adequate explanations for the missing journal entries.

**Recommendations:**

We recommend that the District consider implementing the following items to further improve internal controls and operational efficiencies related to wire transfers:

8. All wire transfer confirmations should be reviewed and approved by the Assistant Superintendent for Business, after the Treasurer makes the transfer of funds.

