

Jericho Union Free School District

Report on Internal Audit Procedures Pertaining to the Payroll Cycle

February 2007

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**Report on Internal Audit Procedures
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Scope of Engagement

The Board of Education of the Jericho Union Free School District has engaged Callaghan Nawrocki to provide internal audit services with respect to the District's policies, procedures, and internal controls pertaining to the Payroll Cycle. As part of this engagement, we performed extensive analysis and validation tests within nine (9) functional areas within the District's Payroll Cycle.

Pursuant to the request of the Board, we have analyzed the financial and operational documents made available to us by the District as well as interviewed various employees who carry out responsibilities within the Payroll Cycle.

Our analysis within each functional area consisted of the following:

- **Document functional area procedures applicable to Payroll**
- **Perform a "Walk-Through" of functional area Payroll procedures**
- **Identify Key Controls within each functional area and perform audit tests of those controls as they relate to Payroll**
- **Make observations and recommendations pertaining to the internal controls of each functional area and the overall Payroll Cycle**

In order to obtain an understanding of the current payroll procedures carried out at the District we analyzed job descriptions and conducted interviews with the following Payroll and Personnel Department employees:

<u>Title</u>	<u>Department</u>
Assistant Superintendent of Educational Operations and Human Resources	Personnel Department
Assistant Superintendent for Business	Business Office
Senior Account Clerk	Payroll/Business Office
Senior Account Clerk	Payroll/Business Office
Account Clerk	Payroll/Business Office
Clerk Typist	Personnel Department
Clerk Typist	Personnel Department
Clerk Typist	Personnel Department

Accordingly, we documented the current procedures within each functional area of the Payroll Cycle by way of flowchart analysis within the attached Exhibits.

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The following section of this report provides "Observations and Recommendations" resulting from our analysis of the Payroll Cycle.

OBSERVATIONS AND RECOMMENDATIONS

This section of the report provides an executive summary of our observations and applicable recommendation(s) within each functional area of the Payroll Cycle.

Observation 1

We observed that the Payroll Department and the Personnel Department do not have a procedures manual.

Recommendation 1

- It is recommended that the Payroll Department and the Personnel Department develop a procedures manual. Having a policy and procedures manual would enhance the understanding of each payroll and personnel employees' responsibilities in this functional area.

Observation 2

We noted that the payroll department and the personnel department create new hire packets for new employees of the district.

It was noted that the district does not provide within its new hire packet an acknowledgement form indicating the employee reviewed and understands the districts Code of Conduct, Drug Free Workplace Policy and Whistleblower Policies. However, the district does provide access to such policies on-line to every employee. It was also noted that The Assistant Superintendent of Educational Operations and Human Resources meets with all new hires to make them aware that those policies are available to them at all times on-line.

Recommendation 2

- We recommend that the Personnel Department create and maintain all New Hire packets in the Personnel department for distribution to newly hired employees.

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- We recommend that the District provide all new employees with an acknowledgement form indicating that the employee has read and understands the policies (Code of Ethics and Code of Conduct) set-forth by the district. The policies are available on-line and such policies are available at all times for the employee to review. The signed acknowledgement form should be maintained within the personnel file.

Observation 3

We observed that, prior to 1998, new hire identification was not copied and placed into the employee file. However it was noted that subsequent to 1998, the District has implemented a procedure where identification is copied and maintained in the personnel file for all new hires.

It was noted that W-4's are kept in a filing system maintained by the personnel department and the payroll department attaches a copy of the W-4 to the green payroll transaction form.

It was noted that the TRS and ERS information is being attached to the green payroll transaction form and being filed away with payroll records and not being consistently maintained within the personnel file.

Recommendation 3

- It is recommended that the W-4 forms and TRS/ERS documents should be readily accessible at all times. We recommend all new hire documents including the W-4 and TRS/ERS be maintained in a central location within the personnel files.

Observation 4

We noted that all new hire packet information including board appointments are sent to the Payroll department to enter the new hire onto the Finance Plus System as well as the new hires' benefit information. (See work paper print screen of the process) Once payroll enters the new employee and salary information, the new hire packet is sent back to Personnel Department except for the green payroll transaction report, W-4 form, and the TRS/ERS information. The Personnel department creates a personnel file for each new hire. We noted that the Benefits are administered though the payroll department / business office. The payroll department does not maintain employee files. All Personnel files are kept in the Personnel office which is located in the Assistant Superintendent of Educational Operations and Human Resources' office.

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In addition, we noted that the Personnel Department employees have "read only" access to Finance Plus.

Recommendation 4

- We recommend creating segregation of duties between payroll processing and the entering of new hire and salary information into Finance Plus. However, while we note that Finance Plus will allow for Personnel to enter the "new hire" demographic information, it will not allow Personnel to have rights strictly to the "salary" on the "Pay Rate Information" screen without having all rights to this particular screen. Thus, we have created a procedure where a "Payroll Activity Report" is printed and reviewed by the internal auditor on a quarterly basis. This will act as a mitigating control and will ensure the proper segregation of duties where the Personnel Department is responsible for entering all new hire information and the payroll department is responsible for the processing of payroll. Additionally, it is recommended that appropriate training, support and oversight be provided to the Personnel Department during this transition period.
- We recommend that all new hire documentation remain in the personnel office once received from the new hire.

Observation 5

We observed that the Account Clerk within the Business Office who is responsible for the preparation of the monthly payroll bank reconciliation is not involved within the preparation of the District's payroll. Although it was observed that the reconciliation process is completed in a timely manner and is reviewed by the District's treasurer, we noted that there were no prepared by or approved by initials on the reconciliation. We have also noted that the reconciliation is done manually on ledger paper and should be maintained electronically on an excel spread sheet format (or other computer data base) and backed-up daily with all other district data to prevent loss of such information in the event of a fire or other type of catastrophe.

Recommendation 5

- We recommend that the monthly payroll reconciliation (and all other reconciliations) be formally documented where the Account Clerk and Treasurer initial the reconciliation as the prepared by entity and the approved by entity, respectively.
- We recommend that the Business Office perform the monthly Payroll reconciliations (and all other monthly reconciliations) electronically to ensure that the data is safely maintained.

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Observation 6

We observed that the district does utilize an exit checklist for employees leaving the district but the checklist does not include certain data such as the employees' final paycheck amount as well as the following: inactivation of personnel data, removal from the IT system and removal from the payroll. It was noted that the Assistant Superintendent of Education and Human Resources meets with all employees prior to their leaving the district to discuss any issues or answer any questions.

Recommendation 6

- We recommend the exit checklist be enhanced to document the closure of the following; inactivate personnel data, removal of the employee from the IT system, and final compensation processing. Additionally the checklist should include an area for the employee to sign the checklist acknowledging that they have been notified (by the Assistant Superintendent of Educational Operations and Human Resources) of final pay amounts and accumulated vacation/sick days (if applicable) they are being paid for by the district.

Observation 7

We noted that the oversight of the administration of the school district information technology is shared by the district's director of technology and BOCES. We noted that the Assistant Superintendent of Business is in charge of assignment of permissions and granted access to the district's Pentamation System. We noted that the district has implemented a sign-off form for the addition and/or deletion of access to the system. The sign-off sheet must be signed by the Assistant Superintendent for Business, the Director of Technology and the Superintendent of Schools. BOCES will not activate any changes without receiving a copy of the form.

Recommendation 7

- We recommend the Assistant Superintendent for Business and the Assistant Superintendent of Educational Operations and Human Resources routinely review the permissions of their staff to ensure that permissions are in accordance with their job descriptions.
- We recommend that the Assistant Superintendent for Business and the Assistant Superintendent of Educational Operations and Human Resources routinely review audit trails and the conduct of their staff to ensure proper access and usage of the districts computer system.

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Observation 8

We observed that although there is a verification process in place to ensure an individual is eligible for Medicare Reimbursement, a process needs to be considered in regard to the maintenance of Medicare cards.

Recommendation 8

- We recommend that the District implement confirmation procedures pertaining to Medicare cards by holding Medicare checks until such cards are received.

Observation 9

We observed in one employee file an expired green card and could not substantiate the eligibility of this individual to work legally within the United States. However, upon further discussion and investigation, we observed documentation for the individual to work legally within the United States

Recommendation 9

It is recommended that the personnel department maintain a tickler file of all employees who are still in an immigrant status to ensure that the employee is eligible to work at all times.

FUNCTIONAL AREA INTERNAL CONTROL TESTING

I. Functional Area: Employment Requisition

We have performed the following procedures within the District's functional area of Employment Requisition:

- **Sampled new hires for the school year 2006/2007 (as of 1/29/07).**

This sample of new hires was utilized as part for internal control testing within the functional areas of employment requisition, hiring and personnel recordkeeping.

- **Verified how request to hire a new employee was communicated to the Personnel Department.**

We noted that in most instances the need for a new hire arose either through the budgeting process, resignation, leave of absence, retirement or termination.

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- **Verified new employee search process**

We noted that an open position for a new hire is posted internally first. If candidates are not found through this process the open position is advertised in the New York Times (instructional, administrator, etc.). For Civil Service positions a list from the Nassau County Department of Civil Service is obtained.

- **Reviewed interview procedures**

Based upon our sample of new hires we determined that the interview process was documented in all the tested new hires personnel files.

- **Reference check**

Based upon our sample of new hires we determined that reference checks of new hires are documented within the personnel file for all new hires.

Recommendation

No recommendations at this time.

II. Functional Area: Hiring

We have performed the following procedures within the District's functional area of hiring:

- **Request to hire**

We observed that after the completion of the interview process an Administrator (i.e. Principal) makes a recommendation to hire an individual to the Superintendent for Schools. Usually the recommendation is in the form of memorandum/ letter.

The Superintendent for Schools prepares a listing of personnel for the Board of Education approval, which is documented in Board of Education meeting minutes.

- **Review of documents provided to a new hire**

Based upon our sample of new hires we verified that the District mails a letter notifying the new employee regarding the Board of Education's approval. The new employee is provided with new hire employment documents and is required to fill out and return such documentation to the Personnel Department.

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We observed that a Code of Conduct acknowledgment form is not collected from employees.

- **Enter new employee into computer system**

We noted that after obtaining the completed documents from a new employee the Payroll Department utilizes this information to enter the new employee into the Finance Plus system.

Recommendation

See Recommendations # 1&4

III. Functional Area: Personnel Recordkeeping

We have performed the following procedures within the District's functional area of personnel recordkeeping:

- **Verified that proper documents are maintained within a personnel file**

We noted that Personnel Department maintains one central file for each employee of the district. We have randomly selected and reviewed the personnel files for current and active employees. Additionally, we reviewed personnel files for terminated/retired employees. Based upon our review of the files in the Personnel Department we made the following observations:

1. The Personnel Department maintains a checklist of required documents to be obtained from a new hire. However, the documents on the checklist are either located in Personnel and/or Payroll Department files, or in separate folders maintained for a specific document.

Recommendations

See Recommendations # 2, 3, 9.

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IV. Payroll Processing

We have performed the following procedures within the District's functional area of payroll processing:

- **Verify how the Payroll Department is notified about new hires, terminations, retirements, etc.**

We observed that the Personnel Department provides the Payroll Department with a Board of Education resolution and retirement intent letter, and Payroll Transaction form.

- **Timesheets Information**

We determined that timesheet information is entered by the Payroll Account Clerk in the Payroll Department who is also responsible for payment. Based upon our review of the processed timesheets we noted the following:

- Timesheets are submitted by Substitute Monitors, Transportation Personnel, Substitute Teacher, Custodians, School Lunch, and Clerical employees for overtime.
- We observed that timesheets for groups other than Substitute Teachers are signed by Building Principal, Supervisor and/or Assistant Superintendent for Business or Superintendent of Schools.

V. Payroll Disbursement

We have performed the following procedures within the District's functional area of payroll disbursement:

- **Payroll Check Stock Verification**

We observed that the District does not maintain a blank payroll check stock. This process is completed by BOCES.

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▪ **Signature Disk Verification**

We observed that BOCES is in possession of the signature disk. Additionally, it should be noted that during our purchasing audit of the District, we made a site visit to BOCES and confirmed that the signature disk process was maintained in a secure environment.

▪ **Sign in Sheet for Payroll Checks**

We determined that a sign in sheet is utilized for payroll checks being picked up at the District office or at various building locations. Also, we have observed the entire check processing procedure that BOCES conducts with regard to check disbursements.

VI. Functional Area: Payroll Accounting, Reporting and, Reconciliation

We have performed the following procedures within the District's functional areas of payroll accounting, reporting and reconciliation:

▪ **Obtained an understanding of payroll accounting and reporting within the Payroll Department.**

Two (2) Senior Account Clerks are responsible for payroll accounting and reporting. We walked through the payroll accounting and reporting process with the Senior Account Clerks.

▪ **Verify Payroll Certification**

We noted that Superintendent of Schools certifies the Payroll Transaction Detail Report.

▪ **Reconciled the total payroll to the cash transferred to the payroll account as well as the Trust and Agency accounts.**

It was verified that the proper amounts were transferred to the correct accounts.

▪ **Verified sequential order of pre-numbered checks and verified any missing check numbers (voids, etc.).**

It was verified that BOCES and the payroll clerk keep track of all payroll check number sequences every time a payroll is processed. We did not note any issues in regard to this area.

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Recommendation

See recommendation # 5

VII. Functional Area: Fringe Benefits

We have performed the following procedures within the District's functional areas of Fringe Benefits:

▪ **Additions/Changes to Employee Benefits**

We noted that Senior Account Clerk from Business office handles the fringe benefits function.

▪ **Medicare Reimbursements**

We observed that a process needs to be considered with regards to the maintenance of Medicare cards.

Recommendation

See Recommendation # 8.

VIII. Functional Area: Personnel Evaluation

We have performed the following procedure within the District's functional area of Evaluations:

▪ **Documented Evaluations**

Based upon our sample and review of the thirty nine (39) employee files, we noted that evaluations are conducted timely and properly documented within employee files.

IX. Functional Area: Termination

We have performed the following procedures within the District's functional area of Termination:

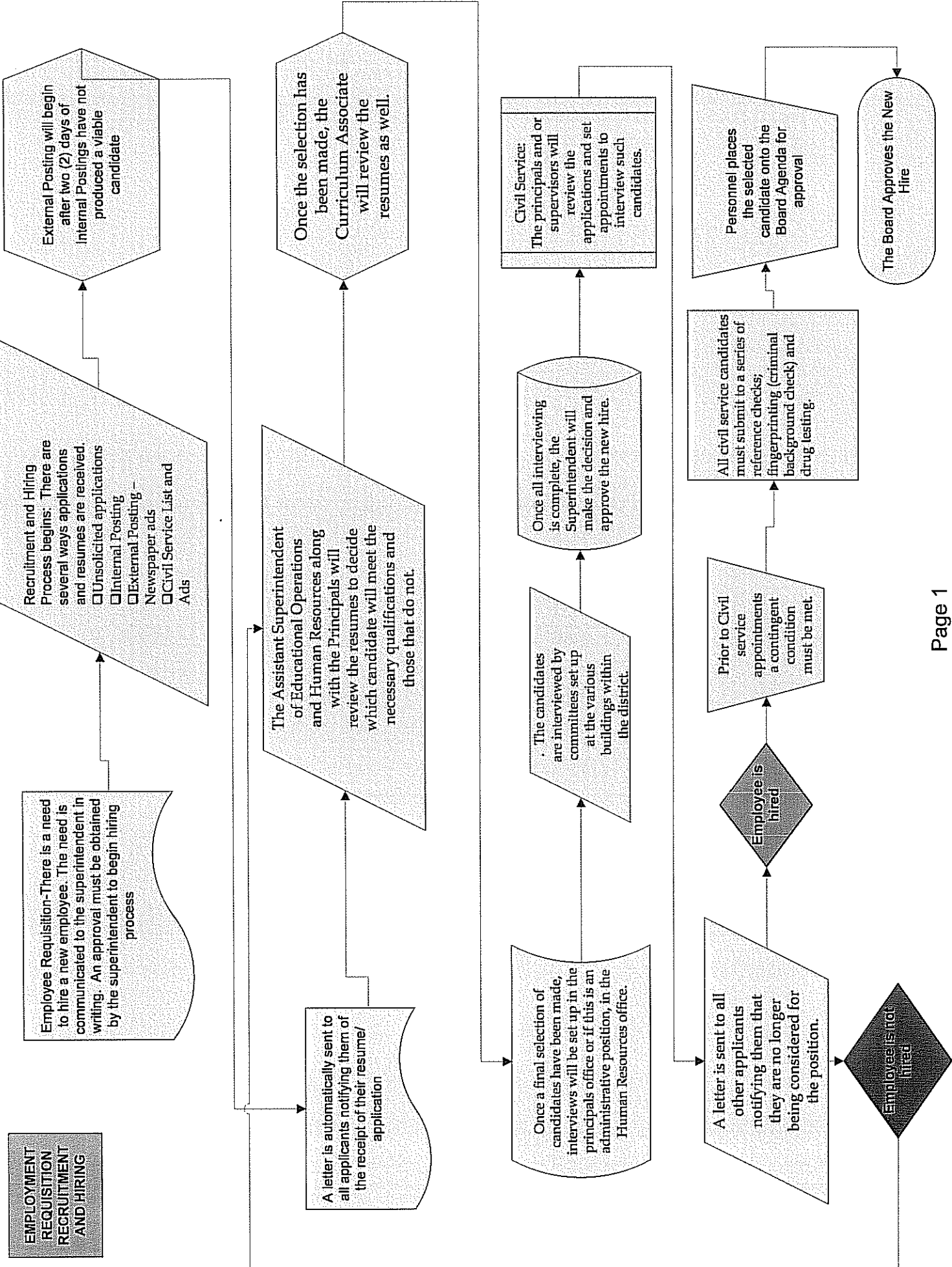
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▪ **Terminated Employee Status:**

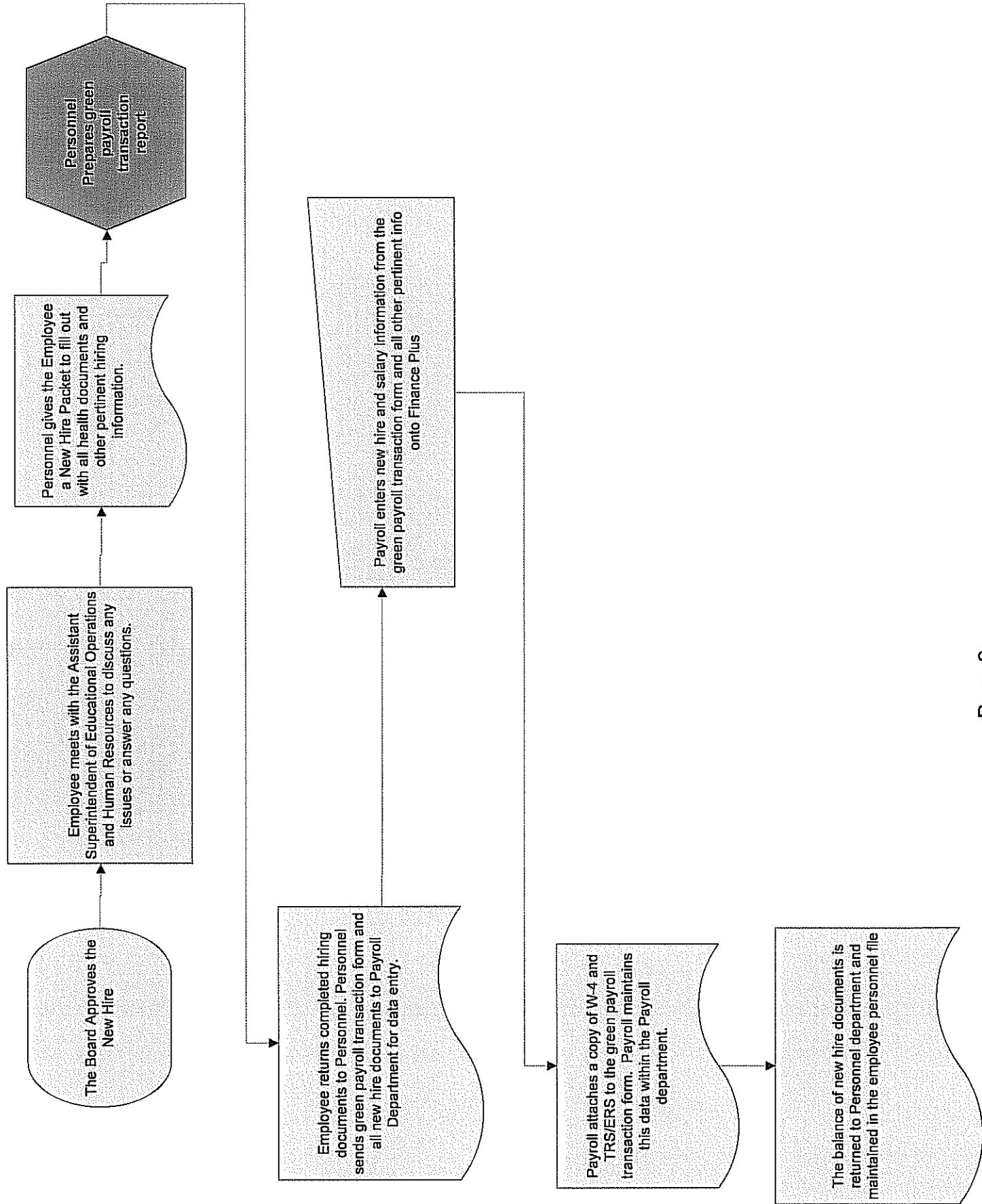
We were provided with the list of all terminated employees during 2006 - 2007 school year by the Personnel Department. Based upon our review of Board of Education minutes and retirement payouts, we noted that the list obtained from the Personnel Department was complete.

We selected one (1) terminated employee file and one (1) retired employee file. We determined that the sampled of terminated employees (except some retirees who came back to District on part time basis) had an "Inactivate" status within the Finance Plus system. In this manner, they could not receive payroll checks after the termination of employment with the District. During our fieldwork, we observed that the payroll clerk has the ability to not only inactivate but also activate employee status in Finance Plus system.

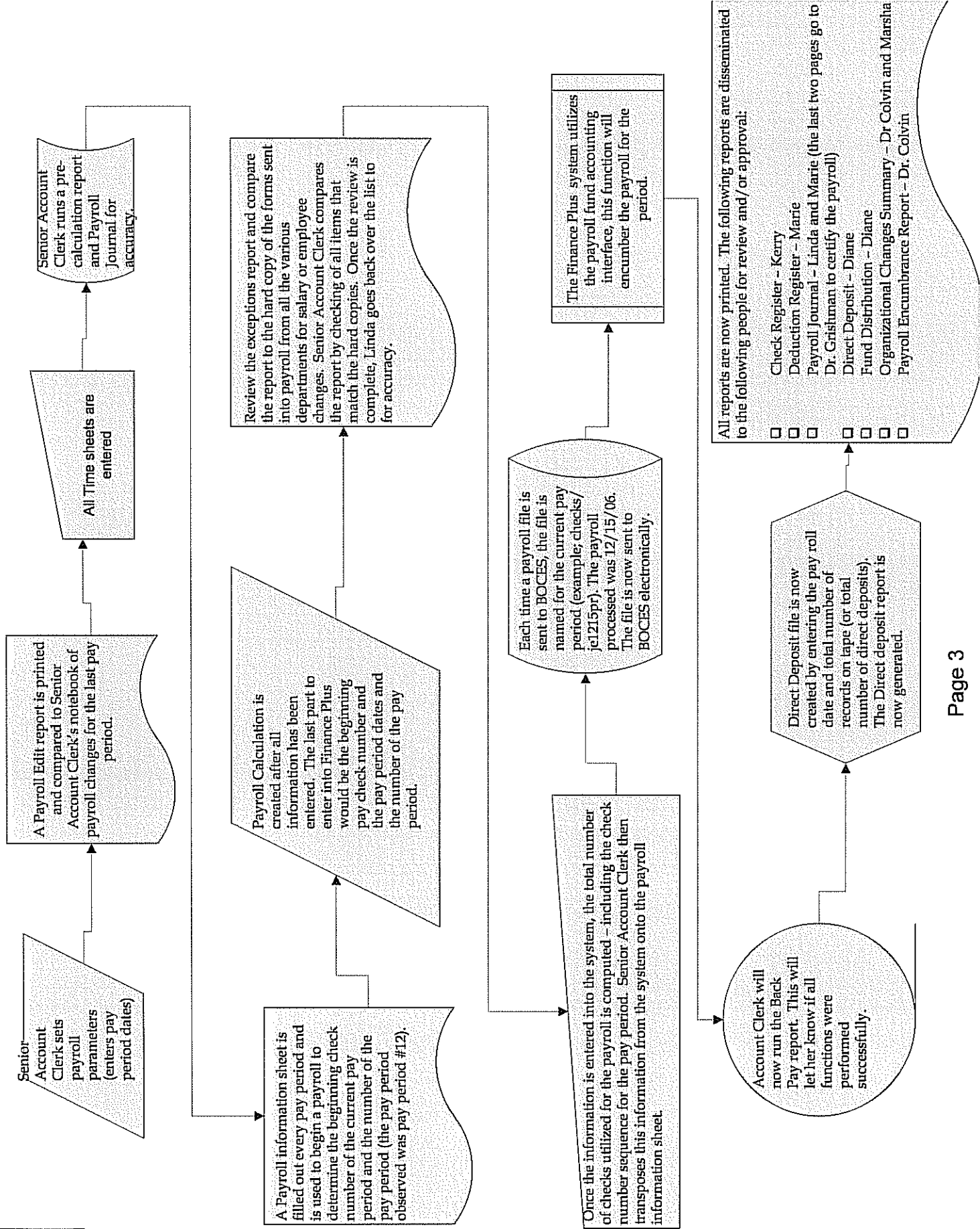
We examined the personnel files for the selected individuals and noted that the final retirement payout calculation detail was in the personnel file. In addition, we noted that all of the retirement payout calculations were signed off by the Assistant Superintendent for Business.



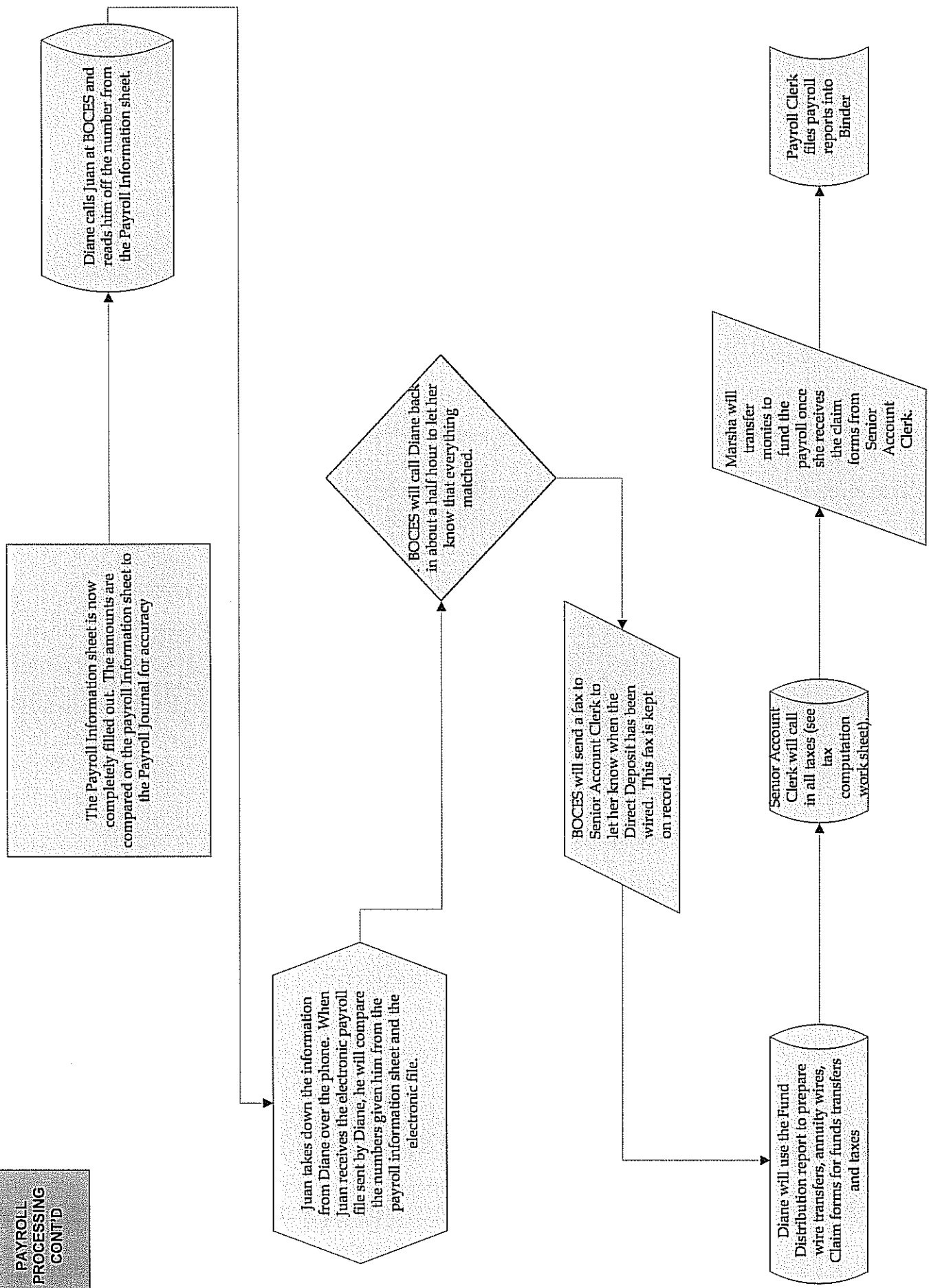
EMPLOYMENT
REQUISITION
AND HIRING
CONT'D



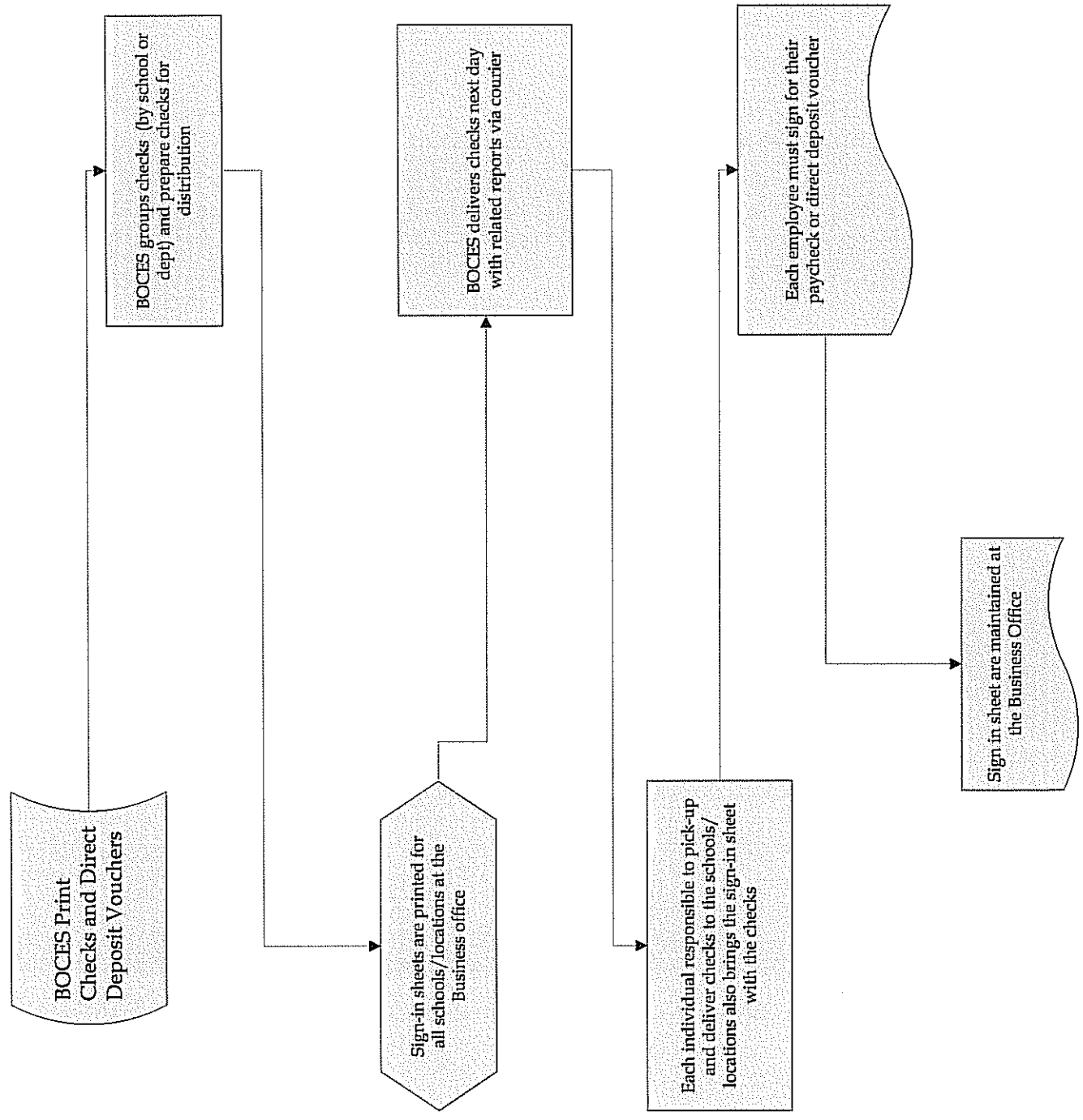
PAYROLL PROCESSING



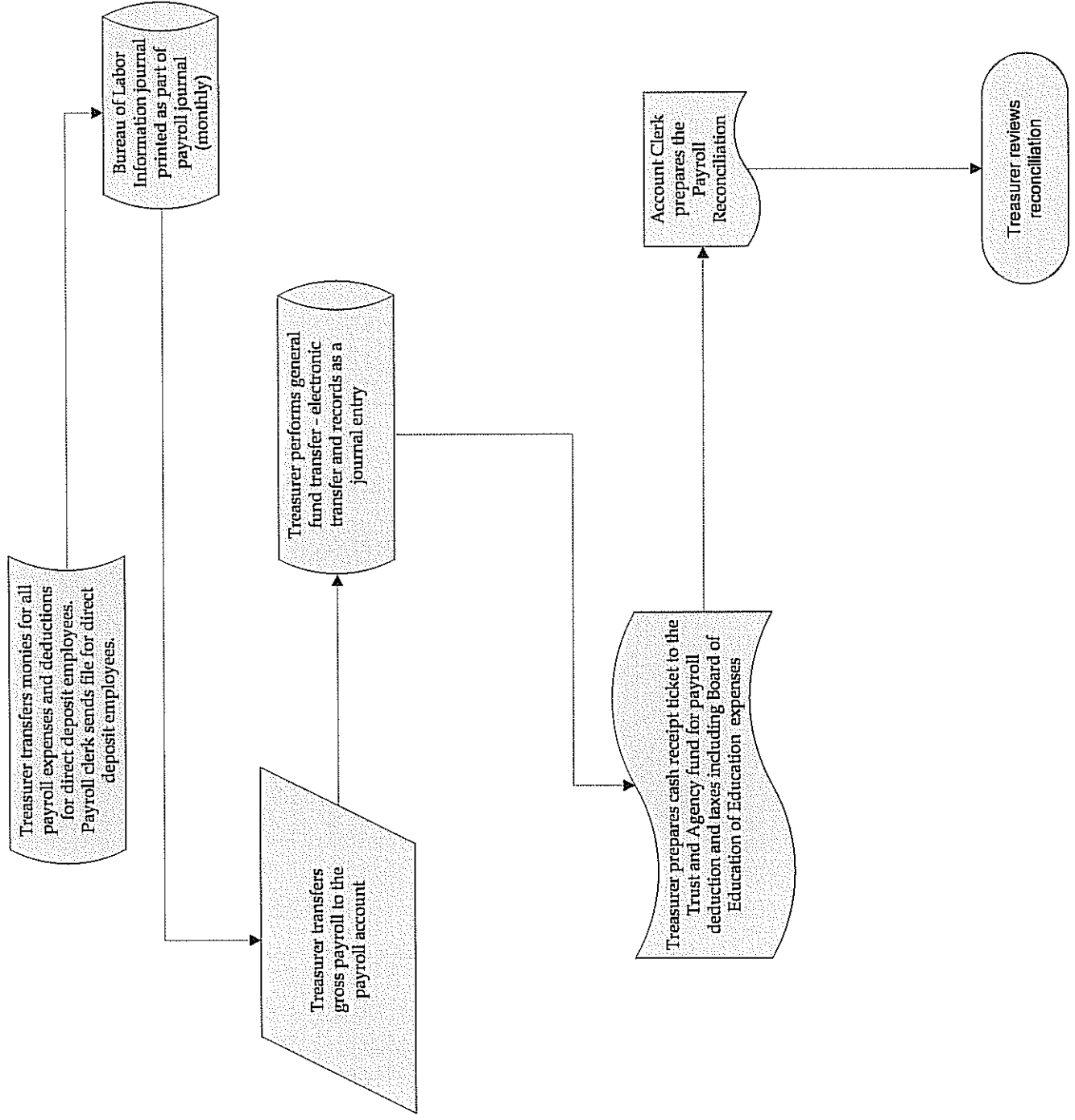
**PAYROLL
PROCESSING
CONT'D**



**PAYROLL
DISBURSEMENT
PROCESS**



**PAYROLL ACCOUNTING
REPORTING AND
RECONCILIATION**



**TERMINATION/
RETIREMENT
PROCESS**

