



a community for learning

**Chappaqua Central School District
Intensive Review of Human Resources and Payroll
For the Year Ending June 30, 2012**

Chappaqua Central School District

Table of Contents

Cover Letter	1
Overview	2
Summary	3
Observations and Recommendations	4-5
Test Results.....	6-7



John J. Tobin, CPA
Eric P. Schmid, CPA

TOBIN & COMPANY
CERTIFIED PUBLIC ACCOUNTANTS, PC

Marco C. DiRusso, CPA
Steven J. Robbins, CPA

To the Board of Education of the
Chappaqua Central School District
Chappaqua, New York

We have performed an intensive review in the area of human resources and payroll for the Chappaqua Central School District (the District). The purpose of this engagement is to ensure compliance with applicable New York State laws and regulations under the Fiscal Accountability Initiative for the fiscal year ended June 30, 2012.

Our report provides results of attribute testing performed on the selected area. In addition, our report indicates any areas for which we believe improvements can be made to existing processes and internal controls.

We are pleased to have had the opportunity to serve you and look forward to reviewing this report in detail with you. We would also like to thank the Board of Education and the employees of the Chappaqua Central School District for their time and assistance during our engagement.

Sincerely,

Tobin & Company
Certified Public Accountants, PC

Tobin & Company
Certified Public Accountants, PC
October 3, 2011

At the request of the Board of Education of the Chappaqua Central School District (“the District”), we performed a Risk Assessment of various District business procedures and activities. Using our Risk Assessment report (dated November 12, 2010), the Board of Education engaged our firm to perform an intensive review of Human Resources and Payroll.

The following excerpt is from our Risk Assessment Report regarding Human Resources and Payroll:

Human Resources and Payroll – Risk Score 70

Payroll is an area in which the high dollar volume in relation to the District budget inherently makes it a “higher risk” area. Payroll is also an area that is generally susceptible to fraud. These two factors make it difficult for the risk level in this area to ever be rated low, regardless of the controls in place. During our review, we did not note any major weaknesses in the procedures or internal controls for this area. Our findings also revealed good overall internal controls, proper reviews and sign offs. Due to the strong internal controls and procedures in place, we are able to rate payroll at a Medium Risk level.

Our intensive review of Human Resources and Payroll consisted of the following:

- Detailed interviews of District personnel using industry accepted checklists.
- Physical observation of the human resource and payroll cycle.
- Testing random pay periods for internal control attributes that should exist based on our understanding of the procedures during our interviews.
- Compared current District procedures to weakness found in other school districts.
- Inspection of the security over sensitive documents, software, hardware and assets related to human resource and payroll.
- Review of previously issued internal auditor reports, and New York State Comptroller’s audits.

Key personnel interviewed during our review were as follows:

Payroll Clerk, *Susan Schriro*

Payroll Clerk, *Margaret Ryan*

Human Resource Clerk, *Jennifer Michel*

Human Resource Clerk, *Paola Ciotti*

Assistant Superintendent of Personnel (interim), *Paul Citarella*

Accountant, *Alex Djordjevic*

Treasurer, *Blanche Blair*

Business Office Assistant, *Liisa Elsner*

John Chow, *Assistant Superintendent for Business*

Chappaqua Central School District

Summary

We performed an intensive review of the policies and procedures in the area of human resources and payroll, and found that internal controls and procedures were sufficient enough to prevent and/or detect misappropriation of assets. As a result of our findings, we were able to reduce our risk score from 70 to 67, as shown in our Updated Risk Assessment Report dated September 29, 2011. Some of the more notable controls and procedures found were as follows:

- The hiring of a second payroll clerk, which adds another level of segregation over payroll duties.
- Segregation of duties, between human resources and payroll.
- There are different review levels of payroll reports by employees other than payroll clerks.
- The use of hash totals on source documents to reconcile Finance Manager data input.
- Occasional review of the payroll audit report from Finance Manager, which lists the employee pay information changes made by the payroll clerks.
- Annual live pay check distributions.

It should be noted however, that good controls will never provide an absolute assurance that if fraud or theft occurred it would be prevented or discovered. Therefore the District should always remain vigilant.

Our review also highlighted some minor weaknesses and areas for improvement. Our findings and recommendations are explained in the body of this report.

We also compared the District to other school districts of similar and larger size against “best practice” procedures and our commonly found weaknesses to determine how the Chappaqua Central School District rated. As shown below, we found that the District compared evenly with other districts and even performed additional controls not performed elsewhere.

Best Practice Procedures and Areas of Common Weakness	Chappaqua Central School District	Similar size school districts	Larger size school districts
Segregation of duties for payroll and human resources	✓	✓	✓
Limited software access rights, depending on position	✓	✓	✓
Payroll clerks are prohibited from editing their own information	-	✓	✓
Continuous communication between business office staff	*	*	*
Review and sign off of payroll reports	✓	*	*
Automated time clock	✓	✓	✓
Supervisor sign off on all timecards and timesheets	✓	✓	✓
Written approval for overtime	*	*	✓
Use of hash totals on source documents	✓	✓	✓
Exit interview	-	✓	✓
Superintendent signature on all certified payroll report	✓	✓	✓
Security of check stock and signature disk	✓	-	✓
Live pay check distribution	✓	✓	✓
Independent clerk prepares bank reconciliations	✓	✓	✓
Payroll deduction payments reviewed by claims auditor	-	-	✓
Payroll tax returns and W-2's reviewed before submission	✓	✓	✓
Several levels of payroll review (<i>noted at CCSD</i>)	✓	-	-
Review the software activity of the payroll clerks (<i>noted at CCSD</i>)	✓	-	-

* denotes that procedure exists, however improvement is needed.

Chappaqua Central School District

Observations and Recommendations

Our observations and recommendations are separated into three categories:

- Procedure - Procedure Deficiencies show where there is a lack of, or insufficient internal control.
- Documentation - Documentation Deficiencies are findings where the auditors believe controls exist, but are either not being documented at all, or are not being sufficiently documented.
- Security - Security Deficiencies refer to the physical security of documents, software, and other district assets.

Procedure Deficiencies

- 1) Observation: (Exit Interview) When employees resign or retire, there is no formal exit interview performed by personnel.
Recommendation: There are occasions when employees leaving the district will have valuable insight about the procedures of the District. It is common for staff to not want to “make waves” while they are employed, but after a resignation they may be willing to make insightful suggestions. In a more extreme scenario, an employee who may have information regarding a possible fraud would be more likely to become a whistle blower post employment.
- 2) Observation: (Unclaimed paychecks) Based on our understanding; in the event of a payroll check not being claimed by the employee it would be returned to the Payroll Clerk.
Recommendation: If a payroll check is unclaimed or is returned to the District via mail, it should go to the Treasurer or Human Resource Department, not the Payroll Clerk. The responsible person should then follow up on the returned payroll check to determine why it was unclaimed.
- 3) Observation: (Editing own employee information) We noted that the Payroll Clerk was editing her own employee information (deductions, exemptions).
Recommendation: Payroll Clerks should be prohibited from editing their own information. We first recommend that the Payroll Clerk obtain written approval from the Assistant Superintendent for Business, or the Treasurer about the needed change. We then recommend that the actual change be made by the other Payroll Clerk.
- 4) Observation: (Misuse of Finance Manager) We noted, on some occasions, the payroll module of Finance Manager was being used as a net check calculator. The clerk would edit an employee’s information, such as deductions, to determine the change in the net check. In a worst case scenario, the change could be accidentally saved or even generated.
Recommendation: Finance Manager should only be used to account for financial activities of the District. It should not be used a “what if” calculator. If needed, employees should contact their tax advisor or there are online websites which allow a person to calculate their net check.

Chappaqua Central School District

Observations and Recommendations

Procedure Deficiencies (continued)

- 5) Observation: (Paycheck Distribution) Live paycheck distributions are performed annually by two employees whom both are involved with payroll.
Recommendation: The live paycheck distribution is an excellent procedure; however, we feel there may be a conflict of interest with the current set up. We recommend that the Accountant or someone with no payroll responsibilities be the second individual of the process. And as with all processes, we recommend both employees sign the distribution sheet as proof of its completion.

- 6) Observation: (Review & Communication) On a test of employee changes, we noted an immaterial error, whereby an employee was overbilled for excess medical (AFLAC) for two pay periods. The error was discovered and corrected for future pay periods, but the previously issued payroll was not corrected, nor was communication made to the proper personnel.
Recommendation: We recommend that the Payroll Clerks review each other's work after employee changes are made. The Accountant should then review the payroll change report and investigate any changes, possibly auditing a selected few each pay period. The Treasurer should continue reviewing the Finance Manager employee audit trail report for unusual changes made to employee information. Finally, all District staff should be reminded to communicate all errors, questions or concerns to the appropriate personnel.

Documentation Deficiencies

- 1) Observation: (Preapproved overtime) There is no written preapproval for overtime for clerical staff. The contract states that no overtime payment will be made without advance authorization. Without written advance authorization, it is hard for the District to control the amount of overtime claimed because it is always "after the fact."
Recommendation: We recommend that all overtime be approve in writing in advance. Employees should request the hours and explain why the additional time is needed. This process will provide additional control over overtime hours and ensure those hours are spent properly.

- 2) Observation: (No sign off) The Accountant reviews the quarterly payroll tax returns, however, he does not sign off on the documents indicating his review or approval.
Recommendation: We recommend that all District staff performing any review function sign off to indicate that a review had been completed. This simple procedure will strengthen the District's controls by forcing the reviewer to be more diligent in their review before writing his or her signature on something. We also recommend these backup documents be kept filed away.

Security Deficiencies

No major exceptions noted.

Test Results

Although we perform many tests during our review, we have provided the results for some of our attribute testing.

Proper Start/End Date of New Hires and Payroll Leave

To ensure the process that employees were paid on the effective start dates, we selected a sample of employees whom were recently hired and have gone on leave. Based on our sample of 4 recently hired employees, and 2 leave of absences, we found that each employee was paid properly based on their start and end date. We also traced the new employees to the approved Board Agenda.

There were no exceptions noted.

Review of salary contract amount and hourly rate to Finance Manager

We performed a test to determine whether the payroll salary information within Finance Manager matched that of Human Resources. We selected a sample of 20 instructional and 2 custodial employees and compared their salary and pay rate information to the information prepared by the Human Resource Department, and the contract pay (for custodial).

We found no exceptions.

Finance Manager Permission Rights

We reviewed the permission rights for all employees associated with payroll to determine whether they had the proper level of rights based on their position and duties.

No exceptions noted.

Check Sequence

We reviewed the payroll check sequence for the last five pay periods ending with September 16, 2011, to ensure there were no unexplained skips in the sequence.

We noted no exceptions.

Approvals for timesheets and extra pay

One control of the payroll function is that all time sheets must be signed and approved by a supervisor/principal. We reviewed all the time sheets for the June 24, July 8, and September 16, 2011 payroll, searching for proper sign offs and approvals.

No exceptions were noted.

Reconciliation of Payroll

We tested the input process of the payroll clerk. After each section of payroll is entered into Finance Manager, the clerk uses hash totals from the source documents to compare the change. We reviewed the documents for the June 24th, July 8th, and September 16, 2011 payroll and tried to reconcile the backup documents to the final payroll amounts.

Reconciliation of Payroll (continued)

We were able to easily reconcile the June 24th, and September 16, 2011 payroll, however, the payroll clerk had to assist us with the July 8th payroll. We do not consider this to be a major exception since we eventually were able to reconcile the amounts. Going forward the clerk will organize her backup documents and hash totals more clearly.

Authorized employee changes

We examined a payroll audit trail report, from Finance Manager, that lists all the changes to employee payroll information made by the two payroll clerks for the period August 15, 2011 through August 18, 2011.

Our examination noted the following:

- Frequent editing of the payroll clerk's own information.
- Editing of employee information to provide those employees with net check information.

We also found that there was a correction of an error of over withholding of excess medical deduction for several employees. The error was corrected for future pay periods; however the employee was not reimbursed for the amounts already incorrectly withheld.