

HEMPSTEAD UNION FREE
SCHOOL DISTRICT

INTERNAL AUDIT

RISK ASSESSMENT UPDATE
AND
ANNUAL TESTWORK

February 20, 2020

TABLE OF CONTENTS

	<u>Page</u>
COVER LETTER	1
METHODOLOGY	2-4
RISK REGISTER AS OF FEBRUARY 20, 2020	5-8
STATUS OF PRIOR YEAR’S RISKS AND RECOMMENDATIONS	9-19
RESULTS OF ANNUAL TEST WORK	
EXECUTIVE SUMMARY OF ANNUAL TESTWORK	20-21

D'Arcangelo & Co., LLP

Certified Public Accountants & Consultants

200 E. Garden St., P.O. Box 4300, Rome, N.Y. 13442-4300
315-336-9220 Fax: 315-336-0836

Board of Education and Audit Committee Hempstead Union Free School District

We have been engaged to assist the Hempstead Union Free School District in performing a risk assessment update and annual test work for the year ended June 30, 2019 as required by Chapter 263 of the Laws of New York State. The purpose of our engagement is to assist the district in determining the level of risk and adequacy of controls in the various functional processes within the School District. A complete description of the methodology used in performing the risk assessment is included in the subsequent pages of this report. We have also performed test work in areas agreed to by the audit committee as required. The results of that test work have been included in this report.

The risk assessment and test work was performed in accordance with professional and ethical standards contained in Government Auditing Standards issued by the Comptroller General of the United States and the general standards of the AICPA's Code of Professional Conduct. These standards are required by the Regulations of the Commissioner of Education.

The engagement to perform the initial risk assessment and test work is part of an ongoing internal audit function. The results of the risk assessment and test work performed have been discussed with management of the Hempstead Union Free School District and are the overall responsibility of the School District.

This report is intended solely for the informational purposes in order to develop a plan to identify and manage the School District's risks. This report and all information used to compile the report is the property of Hempstead Union Free School District.

We appreciate the opportunity to serve you as internal auditors and thank the individuals in your School District for their cooperation.

D'Arcangelo & Co., LLP

February 20, 2020

Rome, New York

METHODOLOGY

The internal audit process for Hempstead Union Free School District has been established in accordance with Chapter 263 of the Laws of New York State to provide an independent, objective assurance and consulting activity designed to add value and improve the organization's operations. It helps the District accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.

Defining Audit Universe

The first step leading to the development of the School District's Risk Register is to define the audit universe. The School District's audit universe encompasses both financial and non-financial functions and have been categorized into the following business units:

- Governance
- Information Technology
- Budget
- Financial Reporting
- Payroll/Human Resources
- Accounts Payable
- State Aid
- Attendance
- Capital Projects
- Special Aid Programs
- School Lunch
- Fixed Assets
- Transportation
- Cash Receipts/Billing
- Extraclassroom

Weighting of Business Units

The risk that each of the above business unit's pose on the School District is unique. The weighting of business units attempts to account for the relative measure of importance between business units and the impact on the overall risk level. A weighting factor was derived by evaluating each business unit based on the following categories:

- *Size of Unit* - Based on total revenue/expenditures processed by business unit band/or volume of transactions.
- *Complexity of Transactions* - Based on the nature of transactions processed.
- *Public Exposure* - Based on the potential of business unit to harm the School District's reputation within the community.
- *Time Since Last Audit* - Based on the last date that internal audit procedures have been performed.

METHODOLOGY

- *Compliance with laws and Regulations* - Based on laws and regulations that direct the business unit's activities.

Defining Business Unit Processes

Business units have been broken out into key processes that will be the basis of the risk register. The objective is to identify and prioritize processes that pose the greatest potential risk and liability to the School District.

Categories of Risk

Risk will be assessed for each business unit process in two categories:

Inherent Risk - Inherent risk measures the potential for objectives not being attained at the desired level before applying the assessment of the internal control process.

Control Risk - Control risk measures the adequacy of internal controls designed to reduce the inherent risk within the process. Each process will be assessed for control risk utilizing the concepts of the COSO model. This model was developed in 1992 by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) and has been adopted as the generally accepted framework for internal control and is widely recognized as the definitive standard against which organizations measure the effectiveness of their systems of internal control. The COSO model focuses on the following components:

- *Control Environment* - The Control Environment sets the tone of an organization, influencing the control consciousness of its employees. It is the foundation for all other components of internal control, providing discipline and structure.
- *Risk Assessment* - Risk Assessment is the identification and analysis of relevant risks to the achievement of the School District's objectives, forming a basis for determining how the risks should be managed.
- *Control Activities* - Control Activities are the policies and procedures that help ensure management directives are carried out. Control activities include a range of activities such as approvals, authorizations, verifications, reconciliations, security of assets, and segregations of duties.
- *Information and Communication* - Information must be identified, documented, and communicated in a form that enables employees to carry out their responsibilities.
- *Monitoring* - Monitoring is a process that assesses the quality of an internal control system's performance over time.

METHODOLOGY

Assessing a Risk Level

The assessment of risk will be based on four levels of severity:

<i>Low</i>	Low likelihood of significant impact on School District objectives.
<i>Moderate</i>	Moderate likelihood of significant impact on School District objectives.
<i>High</i>	High likelihood of significant impact on School District objectives.
<i>Severe</i>	Extreme likelihood of a catastrophic impact on School District objectives.

Risk Appetite

Risk Appetite broadly sets the level of risk that the Board of Education deems acceptable. The Board of Education has set a *moderate* level of risk appetite for the purpose of this initial risk assessment. Those processes that have been assessed a level of control risk greater than the risk appetite are to be included in the School District's long range internal audit plan over a four year period. The level of risk appetite is designated with a blue line on the School District's Risk Register on Pages 5 through 8.

Managing the Risk

The options of the School District in managing its risks can be summarized as follows:

- *Treat* - Implement accounting and operational controls.
- *Terminate* - End the activity.
- *Transfer* - Outsource activity or obtain insurance.
- *Tolerate* - Accept risk and monitor.

Audit Plan

An audit plan must be implemented by the Audit Committee based upon the identified risks, risk appetite, and how the risk is to be managed. Risks that are identified that are above the acceptable risk appetite of the Board of Education should be a priority in the audit plan.

RISK REGISTER AS OF February 20, 2020

Business Unit		Risk Assessment												
		Inherent Risk					Control Risk							
		As of February 20, 2020												
Process		Severe	High	Mod	Low	Severe	High	Mod	Low	Testwork Performed				
Governance	General Policy and Procedures	✓					✓							
	Monitoring	✓					✓							
	Organizational Structure	✓					✓							
	Risk Management	✓					✓							
Information Technology (IT)	Network Security		✓				✓							
	Financial Application Security		✓				✓							
	Miscellaneous Application Security		✓				✓							
	Disaster Recovery		✓				✓							
Budget	Development	✓					✓							
	Presentation/Compliance	✓								✓				
	Monitoring	✓					✓							
	Amendments				✓		✓							
Financial Reporting	Monthly Reporting	✓								✓				
	General Accounting		✓							✓				
	Annual Reporting		✓							✓				
	Financial Oversight		✓				✓							
	Fund Balance Management		✓				✓							

RISK REGISTER AS OF February 20, 2020

Risk Assessment															
Business Unit	Process	Inherent Risk					Control Risk				Testwork Performed				
		As of February 20, 2020													
		Severe	High	Mod	Low	Severe	High	Mod	Low	2016	2017	2018	2019	Reference	
Payroll/HR	Payments to Employees	✓					✓					✓	✓	Pages 20 - 21	
	Allocation of Expenditures	✓					✓								
	General Employee Administration		✓				✓						✓	Pages 20 - 21	
	Employee Benefit Administration	✓					✓								
	Employee Attendance	✓					✓								
	Hiring/Termination of Employees		✓				✓								
Purchasing/AP	P.O. System		✓				✓			✓					
	Payments Outside P.O. System	✓					✓			✓					
	Procurement Process	✓					✓			✓					
	Private Purpose Trust Expenditures			✓				✓							
	Reporting Requirements		✓					✓		✓					
	Allocation of Expenditures	✓							✓	✓					
	Payment Processing	✓					✓			✓					
	Petty Cash Administration			✓					✓						
State Aid	General Processing/Monitoring		✓				✓								
	Basic Aid		✓				✓								
	Transportation Aid			✓					✓						
	Building Aid/Capital		✓				✓								
	Excess Cost Aid			✓					✓						
	BOCES			✓					✓						

RISK REGISTER AS OF February 20, 2020

Business Unit		Process	Risk Assessment										
			Inherent Risk			Control Risk				Testwork Performed			
			As of February 20, 2020										
Severe	High	Mod	Low	Severe	High	Mod	Low	2016	2017	2018	2019	Reference	
Attendance	Tracking Student Attendance		✓						✓				
	Student Performance Data			✓					✓				
Capital Projects	Planning		✓					✓					
	Monitoring		✓					✓					
	Completion		✓					✓					
Special Aid	Grant Application		✓					✓					
	Allowable Costs		✓					✓					
	Cash Management		✓					✓					
	Reporting and Monitoring		✓					✓					
	Compliance		✓					✓					
School Lunch	Federal & State Reimbursement		✓					✓					
	Sales Cycle and System		✓					✓					
	Inventory and Purchases		✓					✓					
	Eligibility Verification			✓					✓				
Fixed Assets	Acquisition and Disposal		✓					✓					
	Compliance			✓					✓				
	Inventory		✓					✓					

RISK REGISTER AS OF February 20, 2020

Business Unit	Process	Risk Assessment												
		Inherent Risk					Control Risk					Testwork Performed		
		As of February 20, 2020												
		Severe	High	Mod	Low	Severe	High	Mod	Low	2016	2017	2018	2019	Reference
Transportation	Fleet Maintenance			✓					✓					
	Risk Management		✓				✓							
	Personnel Compliance			✓					✓					
	Facilities Maintenance and Security		✓				✓							
Cash Receipts/ Billing	Real Property Tax	✓							✓					
	Medicaid		✓				✓							
	Out of District Tuition			✓					✓					
	Use of Facilities			✓			✓							
	Admissions and Concessions		✓				✓							
	Donations			✓					✓					
	Collection/Posting of Receipts		✓				✓							
Extraclassroom	General		✓				✓							
	Cash and Cash Receipts		✓				✓							
	Expenditures and Purchasing			✓					✓					
	Inventories			✓					✓					

STATUS OF PRIOR YEAR'S RISKS AND RECOMMENDATIONS

Accounting Procedures Manual

Prior Year's Observation:

Although the District has documented in limited circumstances certain procedures within the business office, the District does not have a formalized accounting procedures manual or an inventory of its internal controls.

Risk:

Without documented accounting procedures or an inventory of internal controls, employees have no formal guidance as to their specific role in the accounting process as well as their specific role in the internal control process for the District. An effective internal control system relies heavily on a formal communication system that sets the expectations of its employees and establishes their role in the process. This lack of formal communication increases the risk of internal controls not being followed as intended and employees not knowing what is expected of them. It prohibits the ability to effectively train new employees, evaluate performance, and improve on existing procedures or internal control.

Prior Year's Recommendation:

We recommend that the District develop a comprehensive accounting procedures manual that is separate from Board Policy. Such a procedures manual would ensure that procedures are consistently applied throughout the District. It would effectively notify all accounting personnel of their duties and improve lines of communication. In developing the accounting procedures manual, the District should consider the following elements:

- Written job descriptions for each accounting position. These descriptions should be provided to each employee and serve as a guideline for hiring and evaluating personnel. The District already has many of these job descriptions documented.
- Appropriate descriptions of all financial policies, accounting procedures, internal controls over payroll, cash disbursements, and cash receipt cycles.
- A segregation of duties matrix for each of the main transaction cycles that provides an overview of the role of each position in the internal control process.
- A list of standard forms and system generated reports used in the School with a detailed explanation of their purpose and preparation.

STATUS OF PRIOR YEAR'S RISKS AND RECOMMENDATIONS

The accounting procedures manual should be updated annually and should be distributed to all accounting personnel and other appropriate personnel. It should evolve to meet the needs of the District and should provide an accurate reflection of the current system of accounting.

Current Year Status:

The District has prepared an accounting procedures manual. The District should continue the process of documenting additional areas of internal control and further define the processes in relation to risk in each area.

Conflict of Interest Statements

Prior Year's Observation:

Currently neither the Board of Education nor management is required to sign an annual conflict of interest statement. Although not required by law, a conflict of interest statement is considered a best practice for purposes of transparency. The conflict of interest statement would disclose any relationship, contract, or transaction that could have an appearance of conflict with board members or key employee's decision.

Risk:

The District, unknowingly, could have a contractual relationship that could be deemed a conflict of interest for either a board member or key employee.

Prior Year's Recommendation:

We recommend the District require an annual conflict of interest statement be documented from its board members and key employees to disclose any potential appearance of a conflict of interest.

Current Year Status:

The District is in agreement with this recommendation. Currently the Board of Education signs conflict of interest statements. The District is considering expanding to key employees.

STATUS OF PRIOR YEAR'S RISKS AND RECOMMENDATIONS

Contingency Plan

Prior Year's Observation:

The District has not conducted a Business Impact Analysis (BIA) to determine the timeframes in which they can operate without having access to key instructional and district business applications and overall IT Infrastructure services (e.g., Internet Access, Access to email). In addition, the Business Impact Analysis would determine the amount of data that the District's departments and instructional areas are willing to lose in the event of an IT system failure. These results from the Business Impact Analysis would determine whether data backup strategies are designed to meet the District requirements and the extent in which an alternate location is needed to operate the District's IT systems in the event the primary server room was inoperable.

Currently, there is not an alternate location that has been identified to operate the District's IT systems in the event the primary server room was inoperable. In the event that internet access was lost, District staff would relocate to BOCES to process payroll and financials.

Risk

Without a formal contingency plan that has been tested, there is risk that upon the loss or interruption of the IT function, data could be irretrievable and the School District's processing capability diminished.

Prior Year's Recommendation:

The District should develop a contingency plan and a timeline for testing to ensure the District has sufficient capability in case of IT system failure.

Current Year Status:

The District plans on implementing a contingency plan with the assistance of Nassau BOCES.

STATUS OF PRIOR YEAR'S RISKS AND RECOMMENDATIONS

Payroll/Human Resources-Segregation of Duties

Prior Year's Observation:

It was noted that the payroll department enters employee's salary and rates of pay. Segregation of duties could be strengthened by having the human resource department enter the employee's salary into the Finance Manager system. In addition new salaries and pay rates are not properly reviewed and recalculated prior to the new fiscal year.

Risk

Rates of pay entered into the financial system could be incorrect.

Prior Year's Recommendation:

Currently, the human resource department is meeting with the district's new employees and going over required documentation. In order to properly segregate payroll controls, human resource department should enter the new employee's salary into the financial software. Payroll should simply be entering the employee's payroll related deductions.

We also recommend that before the start of each fiscal year that the human resource department review all upcoming increases in pay rates and salaries. These rates would be recalculated and traced to supporting documentation such as contracts or agreements with employees'. The payroll department should then review and recalculate the pay rates and salaries entered by the human resource department as a second check. This would also ensure that individuals whom have attained a longevity status would have the proper longevity paid. The human resource department would be best for this step as they have control over the personnel files and all pertinent information for each employee. We also recommend that after the recalculation of new salaries and rates that performance of this control be documented by initialing or signing a report showing the rates.

Current Year Status:

The District has been working closely with the Human Resources Department to make improvements in all areas noted.

STATUS OF PRIOR YEAR'S RISKS AND RECOMMENDATIONS

Exit Interview Checklist

Prior Year's Observation:

We noted that the district does not have a proper exit conference with employee's leaving the service of the district.

Prior Year's Recommendation:

When employees leave the district due to retirement, resignation, or termination; the district does not hold a proper exit conference, nor have they implemented a checklist of all needed documentation items. We recommend that the district develop an exit conference checklist for the human resource department to complete when an employee leaves the district. This checklist should contain information regarding any retirement planning, health insurance including COBRA coverage, and payment for retirement or insurance. In addition this checklist will ensure that any employee leaving the district is properly informed of any benefits that are legally appropriated to them. It will also serve as notice that employees are no longer employed with the district thus eliminating the possibility of non-employees receiving district employee benefits.

Current Year Status:

The District is in agreement with this recommendation. The District will evaluate the use of these checklists.

Communication and Overpayments to Employees

Prior Year's Observation:

We noted that when an employee leaves the district the Human Resource department will prepare an action sheet for the change. The action sheet will state the applicable departure date for the employee. It was noted that the timeliness of this sheet reaching the payroll office is not functioning properly. Employees need to be deactivated on both the Human Resource side of the financial software as well as on the payroll side. This non-timely manner of reporting has lead payroll to overpay individuals.

STATUS OF PRIOR YEAR'S RISKS AND RECOMMENDATIONS

Prior Year's Recommendation:

We recommend that the district create a process or procedure whereby payroll is notified immediately of an employee's departure from the district. The procedure should also include a range of dates that paperwork must be submitted to payroll. For example the procedure should state that a week prior to payroll being run that all timesheets and changes be submitted to payroll. This would ensure that any changes that need to be made are made in a timely manner. The district should also implement a last and final payout for employees that is created by payroll and reviewed by management for accuracy. This last and final payout should be initialed as reviewed and approved prior to being paid out.

Current Year Status:

The District continues to experience problems in this area.

Paycheck and Direct Deposit Advices

Prior Year's Observation:

It was noted that all employees are required to show ID and sign for their paycheck or direct deposit advice. If this does not occur on the day that checks are released, they are brought back to the payroll department. With the limited amount of staff, these unclaimed items are placed in a box to await an individual to claim them and no follow up is initiated.

Prior Year's Recommendation:

We recommend that the district implement a procedure or process where an individual outside of payroll attempts communication with the individual whom did not take ownership of their paycheck or direct deposit advice. This will ensure that all unclaimed items are in fact legitimate employees. Unclaimed paychecks and/or direct deposit advices should be kept in a secure locked area with access restricted.

Current Year Status:

Although some progress has been made in this area, the District needs to evaluate its process of timely communication and follow up of unclaimed paychecks and/or direct deposit advices. The District needs to establish the consequences for those employees that consistently do not follow the process.

STATUS OF PRIOR YEAR'S RISKS AND RECOMMENDATIONS

Time Sheets and Payroll Certification

Prior Year's Observation:

We noted that all submitted timesheets to the payroll department are entered into the Finance Manager system by the payroll office staff. Each member enters a designated group of timesheets into the system. Once they are entered there is no second check of the time input into the system by anyone other than the individual entering the time.

In addition we noted that the payroll certification process could be strengthened. At present a payroll change report is not being produced or reviewed by the individual certifying payroll. Random checks of individual rate of pay and additional payroll items are not being tested.

Prior Year's Recommendation:

We recommend that once all time has been entered into the system that an individual besides the one entering the time review the work of the other employee. This will ensure that time entered is accurate and complete and that any errors would be detected and corrected.

We recommend that the individual processing payroll to run a payroll comparison or change report. This report will note any changes in an employees pay from the prior payroll to the current payroll. This report will allow the individual certifying the payroll to note any new hires, changes in pay rates, or abnormal pay amounts. In addition to reviewing this report, the individual certifying payroll should randomly select a group of individuals and trace their rate of pay back to an employment agreement or contract to ensure the amount of pay is accurate and complete. These individuals should be documented as tested and approved.

Current Year Status:

As part of the District's corrective action plan in this area it has hired a full time Assistant Superintendent for Business that will be performing a random review of contact salaries on each payroll prior to the certification.

STATUS OF PRIOR YEAR'S RISKS AND RECOMMENDATIONS

Special Aid Grant Management

Prior Year's Observation:

Based on our review of the cost allocation of the special education grant (IDEA 611) it was noted that the allocation of special education expenditures was not fully utilized resulting in a significant loss of federal aid reimbursement of approximately \$1,000,000. This appears to be due to the allocation of these expenditures through the General operating fund instead of through the Special Aid Fund. Monitoring of grant expenditures is imperative to ensure that the full allocation of grant funding is utilized.

Recommendation:

We recommend the District implement proper procedures to monitor the applicable grant expenditures to ensure the full allocation of grant funding is utilized. The District should inquire with the grantor regarding the recovery of the funding allocation that was not utilized.

Current Year Status:

Internal controls over grant management is still in need of improvement. The allocation of grant expenditures is not properly accounted for as a direct allocation to the grants. The District is preparing journal entries to reclassify expenditures to the grants at the end of the year which not proper grant accounting. In doing this the District risks disallowed costs and potential loss of grant funding.

Receiving of Goods

Prior Year's Observation:

During our inquiry of the procurement process we noted that goods are received by the individual buildings and distributed to the individual that requisitioned the goods. The receiving documentation needed by the accounts payable clerk is being delayed by the fact that the documentation is not being timely remitted to the accounts payable department even though the goods have been received. This results in late payments to the vendor as well as additional time tracking down the documentation by the account payable clerk.

STATUS OF PRIOR YEAR'S RISKS AND RECOMMENDATIONS

Prior Year's Recommendation:

We recommend that each building designate a person responsible for the receiving of goods into the building. Once received into the building the receiving documentation should be signed and remitted to the accounts payable clerk. The goods can then be distributed to the individual that requisitioned the goods.

Current Year Status:

Although some improvement has been made in this area, based on our interview with the accounts payable clerk and testing of purchase orders it was noted that the receiving copy of the purchase order is not consistently delivered to the buildings.

Fund Balance Reserve Plan

Prior Year's Observation

There has been increased scrutiny by the Office of the New York State Comptroller regarding school district reserves. The emphasis on transparency of funding methodologies has been a common citing. Although not required by law it is considered "best practice" for Districts to adopt policies that address the purposes of its reserve funds, optimum funding levels and methodology for each reserve. The Board should periodically analyze the reasonableness of the balances in its reserves.

Prior Year's Recommendation

The District should adopt policies for reserve funds that address the purpose of each reserve, optimal funding levels and methodology, and conditions under which the reserves will be used.

Current Year Status:

The district is still considering adopting policies for reserve funds. The District is contracting with the New York State School Board's Association (NYSSBA) to update board policies

STATUS OF PRIOR YEAR'S RISKS AND RECOMMENDATIONS

Uniform Guidance Procurement Policies

Prior Year's Observation:

On December 26, 2014 the Office of Management and Budget's Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, more commonly referred to as the "Uniform Guidance," became effective for all Federal awards, whether the funds are provided directly from a Federal agency or passed-through another state or local agency.

The District currently has effective procedural controls in place over the management of Federal awards as concluded through the testing of grant expenditures. However, key changes under the Uniform Guidance expanded the rules regarding the documentation of internal controls over Federal Awards to require that they be documented in writing in the District's policies and that management should evaluate and document the results of ongoing monitoring to identify internal control issues. The written internal controls should specifically address each of the twelve (12) compliance requirements of the Federal Award Programs.

The Uniform Guidance has allowed a two (2) fiscal year implementation period from the date Uniform Guidance came into effect. This deferment requires the implementation of Uniform Guidance Procurement policies as of July 1, 2018.

Risk:

The District may not be in compliance with Federal Grant regulations related to procurement guidelines

Prior Year's Recommendation:

The District should document policies and procedures in accordance with the new Uniform Guidance. This should include monitoring procedures to ensure that internal controls over compliance are working effectively. The new procurement policies and procedures should be in place for the June 30, 2019 fiscal year grants.

Current Year Status:

The District has not developed a written procedures manual in accordance with Uniform Guidance.

STATUS OF PRIOR YEAR'S RISKS AND RECOMMENDATIONS

Credit Cards

Prior Year's Observation:

During the review of credit card purchases instances were noted that documentation for purchases made with the Bank of America credit are not being received to support the purchase. This has also been discovered by the District's internal claims auditor in their review of the same claims.

Prior Year's Recommendation:

The District should be more diligent in collecting the supporting invoices for credit card purchases.

Current Year Status:

The District has made improvement in this area.

School Lunch Claims

Prior Year's Observation:

During our review of school lunch claims it was not that claims forms have not been submitted since February, 2018.

Risk

Federal and State funding will not be received timely

Prior Year's Recommendation:

The District should ensure that federal and state claim reimbursements are done timely to improve District cash flow.

Current Year Status:

This issue was not noted in the current year audit

RESULTS OF ANNUAL TESTWORK

EXECUTIVE SUMMARY OF ANNUAL TESTWORK

D'Arcangelo & Co., LLP was requested by the *Hempstead Union Free School District* Board of Education and the Audit Committee to perform validation tests of the District paid employees and review of the District payroll distribution procedures and follow up.

Procedures Performed:

D'Arcangelo obtained payroll reports for the period July 1, 2018 through June 7, 2019. We then selected one hundred (100) employees for validation testing to human resource records. We also obtained from the payroll department all returned checks /remittances for employees that did not sign at the time of check distribution. We also reviewed the returned checks/remittances for any live checks for further follow up.

Test work Performed:

We performed an internal audit of the Personnel and Payroll processes and related internal controls. The objective of the internal audit was to examine the internal controls over Human Resources and Payroll, to ensure design and operational effectiveness, compliance with policies and procedures, and applicable regulations. During the audit we examined internal controls over Human Resources and Payroll for the period of July 1, 2018 through June 7, 2019.

The audit procedures that we performed included the following:

- Reviewed Personnel and Payroll Department level policies and procedures
- Reviewed the control environment
- Identified key internal controls in the Human Resources and Payroll function
- Tested key internal controls to include:
 - Review of payroll certifications.
 - Ensure the accuracy of payroll calculations
 - Review sign-out sheets for payroll and procedures for returned checks/remittances

We obtained a current employee listing as of June 7, 2019 and selected 100 employees across instructional, non-instructional, and administrators. We reviewed their personnel file to ensure payments made were accurate and contractual. We then obtained the complete payroll check listing for each employee to ensure all payments made to them were correct and backed up by proper supporting documentation.

EXECUTIVE SUMMARY OF ANNUAL TESTWORK

Results of Procedures Performed:

Based on the procedures performed over the calculation of pay rates no discrepancies were found on the sample selected. However, it was noted that employees are being overpaid due to untimely notification of attendance or leave of absence. This issue has been a systemic problem that has been reported in previous internal audit reports but continues to be the main cause of employee overpayments.

Based on the procedures performed over the District payroll sign out process it was noted that even though some follow up is being performed on employees that do not pick up their payroll check/remittance, it is not being done timely. The District needs to establish the consequences for those employees that consistently do not follow the process.

Our review of those returned check/ remittances discovered over fifty-three (53) checks that were live checks totaling \$26,141.