JAMESTOWN PUBLIC SCHOOLS

INTERNAL AUDIT

PAYROLL PROCESSING

FOR THE YEAR ENDING JUNE 30, 2025

JOHNSON, MACKOWIAK
& ASSOCIATES, LLP
Certified Public Accountants & Consultants

June 5, 2025

Board of Education of
Jamestown Public Schools
197 Martin Road
Jamestown, New York 14701

We have been engaged by the Board of Education (the "Board") of the Jamestown Public Schools to provide internal audit services with respect to the District's internal controls related to payroll processing for the period July 1, 2024 through June 30, 2025.

The objectives of the engagement were to evaluate and report on the District's internal controls pertaining to the payroll processing and to test for compliance with laws, regulations, and the District's Board policies and procedures.

In connection with the following procedures, we have provided findings and recommendations for the internal controls related to payroll processing. Our procedures were as follows:

- Reviewed the District's policies, procedures and practices in regard to the internal controls related to payroll.
- Interviewed key District employees from the payroll department and gained a complete understanding of the payroll process.
- Tested a sample of employees and reviewed personnel files to ensure the files contain the information required per District policy.
- Tested a sample of two payroll periods to verify the proper calculation of payroll for a sample of employees to ensure proper rate per contract, proper addition of applicable stipends or overtime, and proper deductions for taxes and benefits.
- Verified that employees selected for testing are current employees of the District.
- Reviewed a quarterly tax reporting packet to ensure proper amounts reported to taxing authorities and reconciliation to the general ledger.

The results of our procedures are presented on the following pages.

Our procedures were not designed to express an opinion on the internal controls related to payroll processing, and we do not express such an opinion. Because of the inherent limitations of any internal control, errors or fraud may occur and not be prevented or detected by internal controls. Also, projections of any evaluation of the accounting system and controls to future periods are subject to the risk that procedures may become inadequate because of changed conditions.

We would like to acknowledge the courtesy and assistance extended to us by District personnel. We can be available to discuss this report with the Board of Education or others within the District at your convenience.

This report is intended solely for the information and use of the Board, and management of the District and is not intended to be and should not be used by anyone other than those specified parties.

Johnson Mackowiak & Associates, LLP

Johnson Mackowiak & Associates, LLP
Fredonia, New York

PAYROLL PROCESSING INTERNAL CONTROLS

The District requested that we analyze the Payroll Processing Department to assist in the identification of areas where efficiencies could be realized. As part of the system test, we interviewed multiple personnel from the payroll processing department on internal controls surrounding this area. These interviews provided a walkthrough of the entire payroll process. We also reviewed the District's policies, procedures, and practices regarding the internal controls related to payroll processing.

OVERVIEW OF OUR UNDERSTANDING OF PAYROLL PROCESSING INTERNAL CONTROLS

The District currently employs 1,070 individuals. When a new individual is hired, the human resources department adds them to the payroll software and a personnel file is established. The Payroll Department does not have the ability to add an individual.

Personnel Files are maintained for each employee of the District and contain the employment contract, the tax withholding information, bank information, information related to extended absences, and change of status reports for changes in position or changes in rate of pay.

Payroll is processed and paid on a bi-weekly basis. The District has both hourly and salaried employees. Hourly employees are eligible for overtime pay. A time clock is used to monitor their payroll hours. Procedures are in place to make sure the time clock is being punched by the correct person. Any missed punches are discussed with the Supervisor. Time clocks are in an area where the Supervisor can observe. Salaried employees are paid in accordance with "steps" and rates established per District contracts. Time is maintained on time sheets and any extra time beyond the requirements of the position are noted. Supervisors review and approve all time before it goes to the payroll department for processing. Stipends and any other form of "extra pay" are also processed through payroll.

Once processed, a payroll run report is generated and all activity is double-checked prior to posting. Payroll is then posted and then the report goes to the Assistant Superintendent of Finance and Operations for review and approval.

Once the payroll is reviewed and signed as approved by the Assistant Superintendent of Finance and Operations, the checks are disbursed. The majority of payroll is transmitted to employees' bank accounts via direct deposit. Checks for Substitute teachers are mailed. For new employees, the initial checks are live until direct deposit is established.

The District utilizes a "Red Rover" system for tracking sick time. Employees use the system to request time off in whole or half days and the system tracks the remaining time available. The system is monitored by the payroll department.

The benefits offered by the District consist of health insurance, a 457 plan, a 403(b) plan and the New York State Employees Retirement System and New York State Teachers Retirement System. These are set up for each employee and monitored by the payroll and business department.

Compensated absences are calculated and accrued on an annual basis only. There are no monthly accruals generated by the District. These are computed by the Business Department, not the payroll department.

If an employee leaves the District, the HR department is responsible for making them inactive in the payroll system. If the payroll department attempts to make payment to a terminated individual, an error message will generate and stop the process.

Anyone who performs services as an independent contractor of the District is paid through the Accounts Payable process and not through the Payroll department. Each of these individuals is then issued a 1099 at year end.

FINDINGS AND RECOMMENDATIONS

Based on our interviews and detailed testing, we provide our findings and recommendations to further strengthen the District's internal controls as they pertain to the payroll processing procedures outlined above.

It should be noted that these recommendations are provided to assist management in improving the accounting and internal controls and procedures as they relate to the District's payroll processing. It is important to note that our findings and recommendations are solely directed toward the improvement of the system of internal controls over the payroll department.

Payroll Procedures Performed

We selected a sample of 25 employees.

Personnel Files

For each employee selected, we scanned the personnel file to make sure there was a signed wage agreement, that the level of pay agreed with the applicable District contract or other form of approved rate based on District records, and that any change of status forms, including annual pay increases were present.

Finding: There were no exceptions noted

Each file was also scanned to determine that tax withholding information was present and current.

Finding: Each file contained tax withholding information; however, some were very outdated. Since the nature of the withholding forms has changed, it would be in the best interest of the District to update personnel files with the current forms. The District should implement a policy to update these forms if the formatting of them is updated by tax authorities.

Files were tested to ensure direct deposit information existed, as applicable.

Finding: There were no exceptions noted.

Calculation of Payroll

For each employee selected we obtained two payroll runs and recalculated the payroll to ensure that it was properly calculated and included the proper stipends or additional pay and applicable deductions.

Finding: There were no exceptions noted.

941 Reconciliation

We tested the first quarter of 2025 Payroll reports verifying that the amounts agreed to the payroll reports and that payroll amounts posted to the general ledger are reconciled on a quarterly basis.

Finding: There were no exceptions noted.

Distribution of Checks

We inquired about the process of live check distribution

Finding:

We noted that as live checks are distributed, there is no policy in place to have the individual receiving the check sign for it.

Recommendation

We recommend the District implement a policy that as live checks are being distributed, they are signed for by the individual receiving them.

Approval of Payroll

Once the payroll is processed, it is reviewed and approved by the assistant superintendent of finance and operations but is not reviewed by the Board of Education.

Finding:

Controls would be strengthened if the Board of Education also reviewed and approved the payroll.

Recommendation:

We recommend that the payroll report be provided to the Board of Education in conjunction with the accounts payable warrants for review and approval.

IMPLEMENTATION OF RECOMMENDATIONS

In order to actually realize the potential efficiencies listed in this report, it is essential to assign staff to assess these recommendations, research solutions and oversee the implementation and analyze other changes that can be made to improve efficiencies within the departments. We would be happy to assist with the implementation of the recommendations.