Middle Country Central School District

Review of Payroll and Human Resources

2021 - 2022

May 2022

The Board of Education
Middle Country Central School District
8 43rd Street
Centereach, New York 11720

Board of Education:

We have been retained to function as the internal auditor for the Middle Country Central School District (hereinafter, "the District"). Our responsibility is to assess the internal control systems in place within the District, and to make recommendations to improve upon possible control weaknesses or deficiencies. In doing so, we hope to provide assurance to the District's Board, management, and residents, that the fiscal operations of the District are being handled appropriately and effectively.

BACKGROUND

The salaries a district pays to employees represent one of the largest expenditures of a district. It is, therefore, essential that the District institute measures to ensure the procedures for recording, maintaining, and tracking employee salaries are effective, and compensation is paid only to valid employees of the District. The District pays approximately 1,838 employees each pay period. Due to the inherent risk associated with this area, we recommended testing this area during our detailed risk assessment performed in fiscal 2020.

PURPOSE

The purpose of our review was to assess whether the District has sufficient internal controls over the payment of salaries, including overtime and stipend payments. Since salaries represent the largest expenditure of the District, it is essential that the District ensure it has instituted measures to ascertain whether salary payments are in compliance with District-employee contracts, are properly documented, and are correctly calculated. In addition, the District should ensure salary payments reflect compensation paid to only valid employees of the District, and methods for recording, maintaining, and tracking salaries exist to ensure the accuracy of salaries paid by the District.

SCOPE

To perform the review, we gained an understanding of the policies and procedures that are in place for establishing and updating salaries. We then tested a sample of active and newly hired employees to determine whether:

- the salary was properly supported by approved salary notices, Board Action Sheets, timesheets and/or the respective contract;
- the rate of pay was supported by education, certification, and years of service documentation;
- the payroll was coded to the correct General Ledger account;
- the proper employment and election forms are maintained in the personnel files;
- the employee was not currently on unpaid leave; and

- the first check/direct deposit date is reasonable based on the employee's hire date (for newly hired employees).

In addition, we performed tests of the District's payroll expenditures for: overtime/extra pay, substitutes, longevity, and terminated/resigned/retired employees. We also reviewed the personnel files of employees receiving pay via direct deposit to determine whether each file contained support for the employee's employment and confirm the accuracy of direct deposit information.

Our testing was based on information obtained in the District's financial management system, nVision, as well as internally maintained listings for new hires, separations, and those on leaves of absence. We selected the following:

- Active employees: 60 selections of 1,838 paid employees on the January 7, 2022 pay date
- Newly hired employees: 28 selections of 273 employees noted as new hires in nVision and/or on internally maintained listings
- Substitute employees: 10 selections of the 70 paid substitutes on the January 7, 2022 pay date
- Overtime/extra pay (excluding longevity): 25 selections of 245 paid employees on the January 7, 2022 pay date
- Separated employees: 5 selections of 45 employees noted as separated in nVision and/or on internally maintained listings
- Leaves of absence: 5 selections of the 26 employees noted as on unpaid leave on internally maintained listings

Lastly, we examined the access permissions within nVision to determine if access to payroll and human resources (HR) functions is adequately segregated and restricted.

CONCLUSION

While our review of HR and payroll processes indicated that the District has implemented sufficient internal controls surrounding payroll expenditures, we noted a few areas where internal controls could be strengthened.

The detailed results of our review are included in Sections I through III of this report.

I. HUMAN RESOURCES:

A. SALARY NOTICES AND BOARD ACTION SHEETS:

Annual salary notices are generated by the HR department in conjunction with the Payroll department and sent to employees as an acknowledgement of their salary rate for the fiscal year. The salary notices include the employee's hire date, level and step, position, and contracted salary. In addition to the annual salary notices, it is District procedure for each employee's personnel folder to have a Board action sheet. The Board action sheet demonstrates that the employee was approved by the Board for the employee's current position.

We reviewed our selections to determine whether all were Board approved and whether a current, signed salary notice was on file. Through our testing of active employees, newly hired employees, and employees receiving overtime and extra pay, **no exceptions were noted with respect to Board approvals.**

Auditor's Comment: During our review, we noted the District maintains an internal listing of new hires. However, through our review of the listing, we noted not all of those new hires were listed in nVision as an employee hired in FY2022. We noted these employees are not true new hires, but rather employees changing from one position to another. To reduce the duplication of effort, the District should encourage staff to utilize the system (nVision) to document the status of the employee.

In addition, we noted 2 instances in which an employee's hire date in nVision was prior to the Board appointment date. However, we confirmed that the earnings appointment start date was appropriate based on the Board appointment date. The District should ensure the hire date in nVision agrees to the hire date approved by the Board.

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Issue 1: Although no exceptions were noted, we noted 1 employee for which a current, signed salary notice was unsigned by the employee.

Risk: The District is not incompliance with its procedure.

Priority: Low

Recommendation: We recommend that the District ensure every employee personnel file contain a copy of the most recent salary notice to standardize District procedure. If this recommendation is not feasible, we recommend the District reassess the current procedure. In addition, we recommend the District explore implementing an electronic filing system to assist in memorializing historical paperwork.

Management's Response: *The District will keep the current procedure but will revise the current salary notice to include the following copy "Failure to return this document will serve as acceptance". Although the District will explore the recommendation of implementing an electronic filing system, anything that will cause the District to incur additional costs that are non-instructional related are not likely to be implemented if a no cost alternative can achieve the same result due to budgetary constraints.*

Planned Completion Date*: August 1, 2022*

B. REASONABLE ASSURANCE LETTER**:**

Per the Department of Labor and the Unemployment Insurance (UI) Law, educational institutions must provide unemployment insurance for those regularly employed and those hired per diem (i.e., substitutes). Unemployment costs can be burdensome on a district's budget. However, teachers and other district employees generally do not qualify for UI benefits during breaks in the school year or the time between school years/terms

when a contract for a similar position is in place or there is reasonable assurance of a similar position in the next school year/term. When a district provides a verbal or written notification indicating that a per diem employee will be placed on a substitute list, this constitutes reasonable assurance. Reasonable assurance exists when the District has said that it will employ a worker and will make good effort to do so and offers salary and benefits similar to the prior job.

Through our testing of substitute employees, we noted that the District provided documented reasonable assurance as necessary. **No exceptions were noted.**

Issue 2: Although we did not note any instances with regards to having a reasonable assurance letter on file, we noted that the reasonable assurance letter used by the District requires the District to ensure it has obtained a returned signed letter from each applicable employee noting their desire to continue working with the District.

Risk: The District may be unable to obtain correspondence from a substitute employee which may require the District to provide unemployment benefits unnecessarily.

Priority: Low

Recommendation: We recommend the District modify the current reasonable assurance letter to indicate that should a signed letter not be returned, non-receipt will serve as nonacceptance.

Management's Response: *The District will revise the current reasonable assurance letter to indicate the following "Failure to return this signed document will serve as nonacceptance".*

Planned Completion Date: *July 1, 2022*

C. LICENSING AND BACKGROUND CHECKS**:**

The District requires all new hires to have general background checks to be completed. This policy was amended with the Safe Schools Against Violence in Education (SAVE) Act. One of the major provisions of this legislation was the change to Section 305 of Education Law which allowed schools to elect to fingerprint prospective employees. Effective July 1, 2001, all prospective employees of school districts are required to undergo fingerprinting and criminal background checks. In addition, instructional staff and nurses are required to be properly licensed/certified as required under New York State Education Department (NYSED) guidelines.

Through our review of active, newly hired, and substitute employee selections, we determined whether proper background/fingerprint checks and, if applicable, proper licensing/certification existed. **No exceptions were noted.**

D. ERS/TRS:

Membership in the State's Teachers Retirement System (TRS) is mandatory if employment is for the full school day every day school is in session; there is a contractual relationship between the employee and employer; and employment is on a per annum basis (i.e., through the end of school year) regardless of the date employment commences. Chapter 636 of the Laws of 1985 requires districts to inform, in writing, all optional membership employees of their right to join TRS. If they decide not to join, districts should secure and retain a written acknowledgement from each person stating that s/he has been advised of the right to membership.

Membership in the State's Employee Retirement System (ERS) is mandatory for full-time employees and is only optional if the employee is appointed to a temporary or provisional position; the employee works less than 30 hours per week, or less than the standard number of hours for full-time employment as established by the District for that position; the job is supposed to last for less than one year, or the employee works on a less-than-12-months-per-year basis; or the employee's annual earnings are less than New York State's minimum wage, multiplied by 2,000 hours. Section 45 of the Retirement and Social Security Law, effective 1986, imposes requirements on employers hiring people whose membership is optional. That is, employers must, at the time of hiring, notify new employees, in writing, of their right to membership in ERS. This law also requires that each employee acknowledge having been given such notice by signing an acknowledgment and filing it with the employer. Employers must keep these documents on file.

The NYSED requires that an "employee's declaration of intention to decline membership or participation in retirement system or benefit plan, including copy of written notification of options provided employee by local government" must be retained for 6 years after termination of employment.

We reviewed the personnel files for the employees selected for our active and newly hired tests to determine whether the file contained the membership form/acknowledgement form. If the file did not contain the evidence of membership/acknowledgement, we assessed whether the employee would be required to be a member. For those employees who were not required to be a member, we reviewed their personnel files to determine whether the District maintained written acknowledgement stating that s/he has been advised of the right to membership. **No exceptions were noted.**

E. CITIZENSHIP VERIFICATION DOCUMENTS:

The Immigration Reform and Control Act (IRCA) made all employers responsible for verifying the identity of and employment authorization of all employees hired after November 1986. The law requires employers to complete Form I-9, Employment Eligibility Verification forms, for all employees and document the proof of identification provided by employees to verify citizenship and show eligibility to work in the United States. We determined whether Form I-9s were properly completed during our testing.

Through our testing of active employees, newly hired employees, and substitute employees, we noted that all of our selections' personnel files contained a completed Form I-9. **No exceptions were noted.**

F. SEPARATED EMPLOYEES AND THOSE ON LEAVES OF ABSENCE:

We selected 5 employees who separated from the District and 5 employees who were on an unpaid leave of absence (LOA) during the 2021-2022 school year. We performed procedures to determine whether each employee was removed from payroll timely and the earnings appointment and position appointment were ended appropriately when compared to the effective last day of employment in the Board Agenda. We also confirmed whether these employees were listed as "inactive" in nVision within the payroll module and the human resources module, if applicable.

Issue 3: Through our review, we noted that personnel in the HR department are not consistently updating nVision to reflect termination dates and reasons, but instead rely heavily on internally maintained listings outside of the system. In addition, we noted HR is maintaining an internal document of those employees on leaves of absence rather than utilizing nVision.

We also noted 1 instance in which an employee was listed as resigned in nVision, however, the employee still works for the District.

Lastly, we noted that all 5 of our LOA selections were listed in nVision as active in payroll even though the employee was still on unpaid leave. We also noted that the appointment earnings end date was not adjusted to correlate when the employee went off payroll.

Risk: There is an increased risk that an employee may be paid inappropriately and it not be readily detected. In addition, there is an increased risk of misinformation due to the current communication procedures.

Priority: Moderate - High

Recommendation: We recommend that the District ensure timely inactivation of the payroll status within nVision for employees on unpaid LOAs and run a report of employees on LOAs on a quarterly basis to ensure those employees have been inactivated in a timely manner. We also recommend the HR department utilize the Leaves of Absence module in nVision to document compensated and uncompensated leaves of absence and update the appointment end date in nVision when employees return from leave. Lastly, we recommend the HR department utilize the system rather than internally maintained listings to ensure that the information is complete and readily available for those using the system for reporting, reconciliation, and review procedures.

Management's Response: *The District will begin using the Leave of Absence Module in NVision. In addition, the Payroll Supervisor has been given access to the HR Dashboard with viewing rights to view position status's, which include when individuals are on a Leave of Absence. Finally, Personnel will ensure nVision is the priority in terms of data collection.*

Planned Completion Date*: August 1, 2022*

II. PAYROLL:

A. GENERAL LEDGER CODING:

General ledger coding is used to assign payroll and is critical to budgeting and forecasting. The general ledger codes are initially entered by the Payroll department. Annually, the Director of Finance reviews the account codes, and any errors identified in the coding are then corrected by Payroll.

As part of our testing, we reviewed the general ledger account code that was charged for each employee in our samples of active, substitute employees, and employees receiving overtime or extra pay. We compared the code number listed on the payroll register with the list of budget codes for 2021-2022 to ensure that the employees' payroll amount was posted to a reasonable account. **No exceptions were noted.**

Auditor's Comment: We noted 1 employee selected only had one contractual earnings line on the Contract and Rate report from nVision for the whole fiscal year even though the employee changed from a 7.75-hour employee to a 7-hour employee mid-year. Through discussions with Payroll, it was noted that the employee remained in the same position despite the hour change and that the procedure is to adjust the earnings appointment end date only when a position ends. Although the position stayed the same, the District should adjust the earnings appointment end date within the same position when entitlement is impacted.

B. PAY RATE:

Pay rate is communicated by the HR department and input into the nVision by the Payroll department. We made selections of active employees, substitute employees, and employees receiving overtime and extra pay using the January 7, 2022 payroll register. As part of our testing of those selections, we verified whether each employee's pay rate agreed to the rates listed per their contracted pay schedule or Board approved pay rate. **No exceptions were noted.**

C. TIMESHEETS:

For the employees selected in our samples of active employees, substitute employees, and employees receiving overtime or extra pay, we performed procedures to assess whether a timesheet was completed, as applicable. Our review assessed whether the hours listed on the timesheet corresponded to the payroll register and the timesheets contained evidence of proper approval (i.e., signature of supervisor). **No exceptions were noted.**

Issue 4: Although we noted no exceptions in our testing, through our review of those employees receiving overtime or extra pay, we noted that the timesheets for out-of-title work do not indicate the person for whom the out-of-title work is performed.

In addition, we noted that the Payroll department does not receive the detailed timesheets from transportation. Instead, the Transportation Supervisor creates a summary of the detailed timesheets and initials it. Therefore, we were unable to see employee

signature/acknowledgement of hours worked to confirm the accuracy of the summary sheet. Based on what was provided to Payroll, the amounts paid were accurate.

Risk: There is an increased risk that an employee may be paid inappropriately and not be readily detected. In addition, there is an increased risk of misinformation due to the current communication procedures.

Priority: Moderate

Recommendation: We recommend that all out-of-title timesheets also indicate the employee for whom the out-of-title work is for. In addition, we recommend the Transportation department share the detailed timesheets with Payroll. Lastly, we recommend the District explore implementing an automated time keeping system.

Management's Response: *The District has revised the out-of-title timesheets to include indicating the employee whom the out-of-title work is for. In addition, the Transportation Department will provide the detailed timesheets with payroll. Lastly, although the District will explore the recommendation of implementing an electronic filing system, anything that will cause the District to incur additional costs that are non-instructional related are not likely to be implemented if a no cost alternative can achieve the same result due to budgetary constraints.*

Planned Completion Date*: July 1, 2022*

D. TAX WITHHOLDING:

It is Federal law for employers to obtain current tax withholding information from employees. As such, employees must complete and sign a withholding exemption certificate (Form W-4). In addition, NYSED requires that an employee's Form W-4 be retained for 4 years after a superseding certificate is filed or employment is terminated. Our review included verifying whether the District had a Form W-4 and a Form IT-2104 (if applicable) for all of our active and newly hired selections.

Issue 5: Out of the 60 active and 28 newly hired employees sampled, we noted 1 employee whose Form W-4 and Form IT-2104 on file does not agree the payroll register.

Risk: Failure to comply with Federal and State regulations.

Priority: High

Recommendation: We recommend that the District ensure all Form W-4s and Form IT-2104s are completed and retained as required by law. In addition, as noted in recommendation 1, we recommend the District explore implementing an electronic filing system.

Management's Response: *The District has implemented the recommendation ensuring all Form W-4's and Form IT-2014's are fully completed and retained. Although the District will explore the recommendation of implementing an electronic filing system, anything that will cause the District to*

incur additional costs that are non-instructional related are not likely to be implemented if a no cost alternative can achieve the same result due to budgetary constraints.

***Planned Completion Date**: July 1, 2022*

E. DIRECT DEPOSIT:

NYSED requires that direct deposit records are to be retained for 5 years after authorization expires (i.e., the employee submits a new application to begin or terminate a direct deposit). As part of our test of active and newly hired employees, we identified whether employee compensation was received by means of direct deposit or a physical check. Our review included examining the direct deposit authorization form, tracing the information to the direct deposit listing provided by the District, confirming whether the employee was an active employee of the District through verification of the employee's file, and verifying whether the funds were deposited to the bank account indicated by the employee for all of our active and newly hired selections receiving pay through direct deposit.

In addition, we obtained the Direct Deposit Participant Listing from nVision which displayed those employees receiving pay via direct deposit and the direct deposit information. We identified those employees that were assigned more than one bank account, if any, and those employees who shared a bank account with another employee, if any. There were no employees assigned more than one account, however, we selected 9 of the 54 accounts in which multiple direct deposits were made to the same bank account but under different employee names. We reviewed the personnel file of each selection to confirm the file contained documentation to substantiate his/her employment and confirmed the accuracy of the listing with the direct deposit form on file.

Auditor's Comment: During our review, we noted that out of the 9 accounts reviewed (i.e., 18 employees), there were 3 instances in which direct deposit account information is listed as active even though the employee is inactive in the system. The District should inactivate direct deposit information as employees separate from the District; the Direct Deposit Participant Listing from nVision should be reviewed to ensure inactive employees' direct deposit information is also listed as inactive.

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Issue 6: We noted 3 instances in which a direct deposit authorization form could not be located for an employee (none of these instances were for newly hired employees).

In addition, we noted 2 instances in which an employee's direct deposit form was not completed (i.e., account information was missing, the form was not signed by the employee). We also noted 1 instance in which the direct deposit form did not agree to the direct deposit form on file.

Risk: The District is not in compliance with State retention regulations.

Priority: Moderate

Recommendation: We recommend that the District ensure a completed, up-to-date direct deposit form is maintained for every employee receiving pay via direct deposit as required by State law. In addition, as noted in recommendation 1, we recommend the District explore implementing an electronic filing system.

Management's Response: *The District has implemented the recommendation via the following procedural changes: 1.) all employees who are inactivated in the system will now also have their direct deposit inactivated; 2.) all employees who request a change to their direct deposit will have to fill out the form in entirety; and 3.) the District reviewed the Direct Deposit Participant Listing from nVision to ensure all inactive employees Direct Deposit is changed to "inactive". Moving forward, Payroll will run the Direct Deposit list annually to ensure all inactivated employees for that year also have their direct deposit inactivated. Lastly, although the District will explore the recommendation of implementing an electronic filing system, anything that will cause the District to incur additional costs that are non-instructional related are not likely to be implemented if a no cost alternative can achieve the same result due to budgetary constraints.*

Planned Completion Date*: July 1, 2022*

III. BUSINESS OFFICE:

A. ACCESS PERMISSIONS:

Access permission controls are intended to provide reasonable assurance that computer resources are protected from unauthorized use and modifications. We obtained a report of all users' access permissions within nVision as of March 2022. As part of our review, we examined the access permissions established within nVision to verify that access to payroll and HR functions is adequately restricted to only those individuals responsible for inputting, updating and reviewing such data and that such users have access restricted to those permissions necessary to perform their job functions.

Issue 7: Based on the access capabilities reviewed, we noted that certain staff had greater access capabilities to HR and payroll functions than needed to perform their job function and/or could compromise proper segregation of duties.

Risk: Unauthorized transactions may occur and not be readily detected.

Priority: Moderate-High

Recommendation: We recommend the District review the access permissions in question. In addition, we recommend the District implement a procedure to review all access permissions on an annual basis to ensure access permissions are reasonable with respect to each user's role(s) and responsibilities.

Management's Response: *The District has implemented the recommendation including reviewing all the access permissions. In addition, the District has added an annual review pertaining to access permissions and any changes.*

Planned Completion Date*: June 13, 2022*

We understand the fiduciary duty of the Board of Education, as well as the role of the internal auditor in ensuring that the proper control systems are in place and functioning consistently with the Board's policies and procedures.

Should you have any questions regarding anything included in our report, please do not hesitate to contact us at (631) 582-1600.

Sincerely,

Cerini & Associates LLP

Cerini & Associates, LLP
Internal Auditors