Plainedge Union Free School District
Internal Audit Report on
Payroll Processing

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Accountants & Consultants for Over 75 years

Board of Education
Plainedge Union Free School District
241 Wyngate Drive
North Massapequa, NY 11758

We have been engaged by the Board of Education (the "Board") of the Plainedge Union Free School District (the "District") to provide internal audit services with respect to the District's internal controls related to payroll processing for the period July 1, 2022 through January 31, 2023.

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 with regards to the internal controls related to payroll;

- Interviewed key District employees involved in payroll processing and performed a detailed walkthrough of the payroll process;

- Tested a sample of contractual and non-contractual payroll to verify the employee's salary and/or hourly rate as indicated on the *Payroll Transactions – After Checks Posted* report agreed to the applicable employment contract and/or Board approved pay rate; for non-contractual pays, the hours/days paid per the *Payroll Transactions – After Checks Posted* report agreed to the hours/days worked per the employee's timesheet, and the timesheet was reviewed and approved by the employee's supervisor; the employee's withholdings as indicated on the *Payroll Transactions – After Checks Posted* report agreed to the withholding as per the employee's IRS Form W-4; net salary as indicated on the *Payroll Transactions – After Checks Posted* report agreed to canceled check (if applicable); and direct deposit authorization form existed (if applicable);

- Tested a sample of employees who received overtime pay and verified overtime hourly rates were properly calculated and agreed to employment contracts; time sheets were calculated accurately; the reason for overtime was listed on the time sheet; and overtime hours worked were properly approved;

- Tested a sample of employees whose bi-weekly salary or deductions changed per the *Payroll Comparison Report – Differences Only* and verified the change was supported by appropriate documentation;

- Tested a sample of bi-weekly payrolls and verified the *Payroll Change Analysis, Payroll Check Register,* and *Payroll Transaction Report* was reviewed and approved by a responsible administrator; the payroll was certified by an administrator who was appointed by the Board as the payroll certification officer; and the District's Internal Claims Auditor reviewed and approved the payroll wire transfers;

- Tested a sample of newly hired employees to verify the Board approved the new hire in the Board minutes and the employee's salary and/or hourly rate as indicated on the *Payroll Transactions – After Checks Posted* report agreed to the applicable employment contract and/or Board approved pay rate;

- Tested a sample of employees who separated from the District and verified the payroll department was provided with written notification of the separation prior to the separation date; the resignation, retirement, or termination was formally accepted by the Board; the employee's final contractual paycheck was properly calculated, and was reviewed and approved by an appropriate administrator; and the employee was properly inactivated in the payroll module of the accounting information system;

- Tested the quarterly IRS Forms 941 verifying amounts agreed to the general ledger and were reconciled quarterly, and that the reconciliation was reviewed and approved by an appropriate administrator.

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 the payroll processing, and we do not express such an opinion. As you know, because of 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 personnel of the District. We are available to discuss this report with the Board or others within the District at your convenience.

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

Very truly yours,

R.S. Abrams + Co., LLP

R.S. Abrams & Co., LLP
March 3, 2023

GOVERNANCE

During our review of the Board procedure manual, we noted that the District has adopted the following procedures that relates to payroll processing:

Payroll Procedures

The District's Payroll Procedures manual states that the Payroll Department is responsible for ensuring that individuals who are hired are entered into *WinCap* by Human Resources. Payroll is responsible to ensure that changes are made to an employee's pay schedule and/or amount as necessary and in a timely fashion. Payroll is processed semi-monthly. Payroll is disbursed on the fifteenth and last day of the month. If the fifteenth or last day of the month falls on a weekend or a holiday, payroll is distributed that Friday or the day before. The manual also details the procedures for payroll processing, disbursement, and accounting processes, along with separation payment procedures. The District also has a Federal Fund Procedure Manual which details the District's procedures and internal controls surrounding salaries charged to federal grants, in accordance with the OMB's Uniform Guidance § 200.430.

PAYROLL PROCESSING

Based upon our interviews and observations, we noted the guidelines and procedures for payroll processing to be as follows:

The District processes payroll on a semi-monthly basis. For hourly and per diem employees, time sheets are completed by the employee each pay period. The employee signs the time sheet and submits it to his or her supervisor for review. The supervisor reviews the time sheet for accuracy, signs to indicate approval, and forwards the time sheet to the payroll department to be processed. Overtime is also submitted by time sheet to the employee's supervisor. All overtime must be preapproved, however preapproval of overtime is not submitted to the payroll department.

Hourly, per diem, and overtime pays are processed by the account clerk in payroll. The account clerk reviews the timesheets for clerical accuracy and proper approvals and enters the information into *WinCap.*

For substitutes, the account clerk in payroll prints and reviews the *Attendance Transactions Not Imported to Payroll* report for the pay period associated with the timesheet provided by the senior clerk typist. The senior clerk typist imports the timesheet into *WinCap* prior to giving them to the account clerk. The account clerk then downloads the *Post Pending Attendance Payroll Transaction* in *WinCap* which imports the pay run to review for accuracy.

Contractual payroll is processed by the Payroll Supervisor. The Payroll Supervisor generates the contractual payroll, and verifies the salaries agree to the *Payroll Activity Verification Report* as well as the prior payroll for accuracy. After generating the contractual payroll, the Payroll Supervisor reviews the deductions for all employees for accuracy. The Payroll Supervisor then generates and reviews the *Payroll Change Report* online, verifying that all changes are correct. After all reports are reviewed, the Payroll Supervisor will post the payroll information to the payroll module of *WinCap.* The *Detailed Payroll Check Register* and *Payroll Register Summary* are then given to the Superintendent for review, along with ten employee timesheets which are selected at random as a spot check. The Superintendent will compare the reports against the selected timesheets and place a check mark on the *Payroll Register Detail* to indicate which employees were reviewed. The Superintendent will then sign the *Detailed Payroll Check Register* certifying the semi-monthly payroll. The Payroll Supervisor prepares the file and the Treasurer releases the password protected file and prints the checks using black stock with a control number. Checks are signed by the Treasurer or Assistant Treasurer in her absence. Only one signature is required on payroll checks.

PAYROLL DISTRIBUTION

Based upon our interviews and observations, we noted the payroll disbursement and accounting procedures to be as follows:

After the checks have been printed, the account clerk and Payroll Supervisor compare the live checks to the Payroll Sign In sheet, which lists each check to ensure all are accounted for and prepares them for distribution. Since the COVID-19 pandemic, all live checks are mailed home to the staff. All others have access to the online portal of *WinCap* Web except for the per diems and substitutes, whose pay stubs are mailed to them after direct deposit. The Payroll Supervisor processes the direct deposit file. *WinCap* generates an export file that the Payroll Supervisor uploads to the J.P. Morgan Chase account through an encrypted program. The Payroll Supervisor then verifies that the export file output matches the *WinCap* check register report prior to processing.

ANNUAL SALARY ROLLOVER PROCESS

Based upon our interviews and observations, we noted the annual salary rollover procedures to be as follows:

The revised annual salaries are determined by the different bargaining unit contracts. The senior clerk typist in the human resources department will enter the new salaries into *WinCap* annually. The Payroll Supervisor will review to verify salaries and rates were accurately entered.

NEW HIRE PROCESSING

Based upon our interviews and observations, we noted the guidelines and procedures for the new hire process to be as follows:

Once an individual has been hired and formally appointed by the Board, the District Clerk provides the *Personnel Action Reports* from the Board packet to the Payroll Supervisor in the payroll department notifying them of the new hire. The senior clerk typist in the human resources department enters the new employee information, such as salary, number of pays and tax withholding information, into *WinCap,* the District's accounting information system. The Payroll Supervisor in the payroll department enters the benefits deduction information, the budget code, verifies the correct pay rate, and activates the employee in *WinCap* once their employment has been approved by the Board of Education.

EMPLOYEE SEPARATIONS

Based upon our interviews and observations, we noted the separation payment procedures to be as follows:

If an employee is separating from the District, the human resources department will verbally contact the payroll department to notify them of those individuals who are leaving the District. The Payroll Supervisor reviews the *Personnel Action Report* in the Board packet for employees who will be leaving the District prior to being contacted by the human resources department. The senior clerk typist in the human resources department will enter the last day of employment into *WinCap*. The *WinCap* system automatically generates the final paycheck, which is then verified by the Payroll Supervisor. The senior clerk typist in the human resources department prints the employee's attendance record from *WinCap* and calculates the number of days the employee is entitled to be paid out upon separation from the District, based upon contract stipulations. The senior clerk typist in the human resources department will then complete a *Payout Authorization of Sick, Vacation and Personal Days Form* that indicates the number of vacation and sick days and any applicable retirement incentives to determine the employee's final payout. The Payroll Supervisor will review and sign the *Payout Authorization of Sick, Vacation and Personal Days Form* to ensure the final payout is calculated correctly. The employee will also receive a copy of this form to sign and return to the Business Office. The senior clerk typist in the human resources department will then change the employee to an inactive status within *WinCap*.

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 directed toward improvement of the system of internal controls and should not be considered a criticism of, or reflection on, any employee of the District.

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Payroll Procedures

Procedure Performed: We reviewed the District's Board policies, procedures, and practices with regards to the internal controls related to payroll.

Finding: We noted that while both the senior clerk typist and the Payroll Supervisor review the annual salary rollover, their review is not documented.

Recommendation: We recommend that the review of the annual salary rollover by the senior clerk typist and the Payroll Supervisor be documented.

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Payroll Accounting

Procedure Performed: We selected a sample of ten contractual and ten non-contractual employees to verify the following:

- The employee's salary and/or hourly rate as indicated on the *Payroll Transactions – After Checks Posted* report agreed to the applicable employment contract and/or Board approved pay rate;
- For non-contractual pays, the hours/days paid per the *Payroll Transactions – After Checks Posted* report agreed to the hours/days worked per the employee's timesheet, and the timesheet was reviewed and approved by the employee's supervisor;
- The employee's withholdings as indicated on the *Payroll Transactions – After Checks Posted* report agreed to the withholding as per the employee's IRS Form W-4;
- Net salary as indicated on the *Payroll Transactions – After Checks Posted* report agreed to canceled check (if applicable);
- Direct deposit authorization form existed (if applicable).

Finding: No exceptions were noted as a result of applying these procedures.

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Overtime

Procedure Performed: We selected a sample of ten employees who received overtime pay to verify the following:

- Overtime hourly rates were properly calculated and agreed to employment contracts;
- Time sheets were calculated accurately;
- The reason for overtime was listed on the time sheet;

Finding: No exceptions were noted as a result of applying these procedures.

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Payroll Changes

Procedure Performed: We selected a sample of five employees whose contractual pay changed from the prior period, and five employees whose deductions changed from the prior pay period, and verified the change was supported by appropriate documentation.

Finding: No exceptions were noted as a result of applying these procedures.

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Payroll Review and Certification

Procedure Performed: We selected a sample of two bi-weekly payrolls, and verified the following:

- The *Payroll Change Analysis,* the *Payroll Check Register,* and the *Payroll Transaction Report* were reviewed and approved by a responsible administrator;
- The payroll was certified by an administrator who was appointed by the Board as the payroll certification officer;
- The District's Internal Claims Auditor reviewed and approved the payroll wire transfers.

Finding: No exceptions were noted as a result of applying these procedures.

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New Hires

Procedure Performed: We selected a sample of ten newly hired employees to verify the following:

- Board approval of the new hire in the Board minutes;
- The employee's salary and/or hourly rate as indicated on the *Payroll Transactions – After Checks Printed* report agreed to the applicable employment contract and/or Board approved pay rate.

Finding: No exceptions were noted as a result of applying these procedures.

***

Employment Separations

Procedure Performed: We selected a sample of five employees who separated from the District, and verified the following:

- The payroll department was provided with written notification of the separation prior to the separation date;
- The resignation, retirement, or termination was formally accepted by the Board;
- The employee's final contractual paycheck was properly calculated, and was reviewed and approved by an appropriate administrator;
- The employee was properly inactivated in the payroll module of *WinCap.*

Finding: No exceptions were noted as a result of applying these procedures.

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941 Reconciliation

Procedure Performed: We obtained and reviewed the IRS Form 941s for quarter ending June 30, 2022, quarter ending September 30, 2022, and quarter ending December 31, 2022, verifying that the quarterly reconciled amounts agreed to the general ledger, and that the reconciliations were prepared timely and reviewed and approved by an appropriate administrator.

Finding: No exceptions were noted as a result of applying these procedures.

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CORRECTIVE ACTION PLAN

The District is required to prepare a corrective action plan in response to any findings contained in the internal audit reports. As per Commissioner's Regulations §170.12, a corrective action plan, which has been approved by the Board, should be submitted to the State Education Department within 90 days of the receipt of a final internal audit report.

The approved corrective action plan and a copy of the respective internal audit report should be submitted using the NYSED Business Portal.