



**Putnam/Northern
Westchester BOCES**
*Internal Audit Report on
Payroll Processing*

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Board of Education
Putnam Northern Westchester BOCES
200 BOCES Drive
Yorktown Heights, NY 10598

We have been engaged by the Board of Education (the “Board”) of the Putnam/ Northern Westchester BOCES (the “BOCES”) to provide internal audit services with respect to the BOCES’ internal controls related to the payroll processing for the period July 1, 2014 through April 30, 2015.

The objectives of the engagement were to evaluate and report on the BOCES’ internal controls pertaining to the payroll processing and to test for compliance with laws, regulations, and the BOCES’ 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 BOCES’ policies, procedures and practices with regards to the internal controls related to payroll;
- Interviewed key BOCES’ employees involved in payroll a detailed walkthrough of the payroll process;
- Tested a sample of contractual payroll to verify the employee’s salary and/or hourly rate as indicated on the *Payroll Check Register* agreed to the applicable employment contract and/or Board approved pay rate; the employee’s withholdings as indicated on the *Payroll Check Register* agreed to the proper authorization for taxes, retirement system and health/dental/vision benefits; leave allowances are within contractual parameters and that prior year carryover balances did not exceed the maximum allowed; and an I-9 form was available for all required employees;
- Tested a sample of non-represented payroll to verify the employee’s rate as indicated on the *Payroll Check Register* agreed to the Board approved pay rate; the timesheet or timecard hours or days agree with those on the *Payroll Check Register*; net salary as indicated on the *Payroll Check Register* agreed to canceled check (if applicable) or direct deposit batch transfer agreed to the bank statement; the direct deposit authorization existed (if applicable); the employee’s withholdings as indicated on the *Payroll Check Register* agreed to the proper authorization for taxes, retirement system and

health/dental/vision benefits; and the employee's withholdings as indicated on the *Payroll Check Register* agreed to the proper authorization for other withholdings;

- 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 Check Register* agreed to the applicable employment contract and/or Board approved pay rate;
- 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 who received stipend pay and verified stipend amounts agreed to employment contracts and/or Board minutes; proper documentation existed such as a time sheet; and approved stipend payments were properly calculated;
- Tested a sample of employees who substituted for a permanent teacher/teacher aide and verified the contracted rate agreed to employment contracts and/or Board minutes; proper documentation existed such as a time sheet; the employee substituted for was charged with time accordingly and net salary as indicated on the *Payroll Check Register* agreed to the cancelled check (if applicable) or direct deposit;
- Tested former employees who received separation payments to verify the employee was entitled to receive a separation payment upon separation from the District; the separation payment was calculated in accordance with employment contract stipulations; calculation of the separation payment was properly approved; and that the former employee did not receive compensation subsequent to the date of last separation payout;
- Reviewed the permissions of employees with job responsibilities within human resources, payroll and bookkeeping to verify that the employee was granted only permissions to system areas that were reasonable for their job function and verified that inactive administrative employees were excluded from the current permissions report.

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

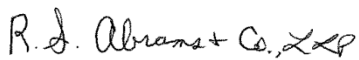
Our procedures were not designed to express an opinion on the internal controls related to the payroll processing, and we do not express such an opinion. As you know, because of inherent limitations of any internal control, errors or fraud may occur and not be prevented or detected by internal controls. 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 BOCES. We are available to discuss this report with the Board or others within the BOCES at your convenience.

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

Very truly yours,

A handwritten signature in cursive script that reads "R.S. Abrams & Co., LLP".

R.S. Abrams & Co., LLP

May 27, 2015

GOVERNANCE

During our review of the Board policy manual, we noted that the BOCES has adopted the following policies that relate to payroll processing:

Payroll Procedures

The BOCES' *Payroll Procedures* policy, No. 4750, recognizes the importance of the payroll function to the effective administration of the BOCES. The Board is aware that this is a potential area of fraud and/or abuse. It is the District Superintendent's responsibility to establish and maintain procedures to reasonably ensure the accuracy and integrity of the payroll system. The individual authorized by the Board at its annual Organization meeting will certify each payroll. The Director of Business Affairs shall conduct periodic tests to verify the accuracy and appropriateness of the BOCES payroll. The District Superintendent will evaluate the results of the tests and determine if improvements need to be made. Payroll procedures will also be reviewed periodically by the internal auditor.

Recruitment, Selection and Appointment of Personnel

The BOCES' *Recruitment, Selection and Appointment of Personnel* policy, No. 5150, describes the Board's desire to attract the best qualified personnel available. It is the duty of the District Superintendent to see that persons recommended for employment meet all qualifications established by law or the Board for which the recommendation is made. Appointments for Certificated Personnel, Civil Service Employees and Continuing Education Instructors are discussed along with the applicable probationary periods.

Temporary and Part-Time Employees

The BOCES' *Temporary and Part-Time Employees* policy, No. 5151, describes the BOCES procedures regarding part-time employees, substitute teachers and adult education teachers. The District Superintendent is authorized to fill vacant positions on a temporary basis when such positions are necessary for the maintenance or continuity of a program or service. Such authority applies to per diem substitutes (certified and classified), Adult Education staff and temporary employees, who work less than 50% of the school year at an hourly or per diem rate established by the Board. All other paid personnel shall be recommended by the District Superintendent for Board approval. The Board is responsible for employing to the greatest degree possible substitute teachers who are competent and effective individuals who are certified by the State of New York in an approved teaching area.

Separation – Certificated Staff

The BOCES' *Separation – Certificated Staff* policy, No. 5180, describes the responsibility of the District Superintendent to notify the professional staff member in writing at least 60 days prior to the expiration of the probationary period that an affirmative recommendation for appointment on tenure will not be made. Notice must also be given that the Board will review the failure to recommend tenure at a meeting to be held at least thirty days after notice is given. At any time during the probationary period, the Board shall expect any professional staff member desiring to terminate his/her service to provide the Board with a minimum of thirty days' notice.

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Salary Guides

The BOCES' *Salary Guides* policy, No. 5341, discusses the salary and step placement for various types of employees. Determination of step placement shall be guided by the nature of the position and the experience and education of the individual. Determinations are made by the District Superintendent and approved by the Board.

Salary Guides—Termination of Employment—All Employees

The BOCES' *Salary Guides—Termination of Employment—All Employees* policy, No. 5342, states the proportional amounts by which full-time employees who terminate during the employment year shall be compensated. The allocation is based on the employees' classification.

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PAYROLL PROCESS OVERVIEW

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

- The human resources department will notify the payroll department of a new hire.
- The individual employee's department enters the new employee information, such as name, address, into *Wincap*, the BOCES' accounting information system. The human resources department will enter the salary information, verifying step/level. The human resources department will check the I-9 form to the employee record and file the form. The Payroll Clerk or Account Clerk in the payroll department will review the employee file and add the appropriate withholding information. When the file review is complete, the Payroll Clerk or Account Clerk will activate the employee in *Wincap*.
- A personnel report is presented to the Board for approval of appointments, reappointments, changes in status, terminations and resignations. The Board also receives reports for the approval of hourly and per diem rates. The human resources department reviews and approves the personnel report.
- Payroll parameters, salary information (step/level) and withholding information are given to the Payroll Clerk over the summer by the human resources department. Contractual salaried employees are automatically rolled over in *Wincap*. The salary rates are entered into *Wincap* by the Payroll Clerk or her backup.
- Employees access the BOCES deferred compensation plans online through the OMNI system. All employee deduction forms are completed online through OMNI.
- Contractual payroll is processed bi-weekly by the Payroll Clerk. Signed and approved attendance sheets for salaried employees are sent to the human resources department to verify leave. The attendance sheets are maintained on file by the human resources department.
- Timesheets are processed electronically by utilizing a biometric time clock for hourly employees and for overtime. *Wincap* automatically imports timesheets into the payroll module. Web-punchers receive web approval of their time. The approver will email the Payroll Clerk when approval is complete for the period. The Payroll Clerk will compare the *Wincap* report to the original timesheets to ensure accuracy. Department supervisors approve timesheets for their departments.
- The Head of Human Resources reviews the payroll change reports, which the Payroll Clerk has proofed from the previous to current status.
- The payroll is executed and both the HR Director and Director of Business Affairs certify the completeness and accuracy of the payroll.

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PAYROLL DISBURSEMENT AND ACCOUNTING PROCESS OVERVIEW

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

- Payroll is processed bi-weekly and distributed on Friday mornings.
- The payroll checks are printed on blank check stock, which is secured in a safe.
- The Treasurer enters a signature code into *Wincap* to run the checks which will have her signature on the checks. There is a separate and distinct password, assigned to the signature code, which must be entered in addition to the *Wincap* system password.
- The payroll checks are printed in the business office on a dedicated printer with special micro toner. Checks are folded, stuffed and put in envelopes by location and then by name.
- On payday checks are delivered by the BOCES courier to their distribution location.
- Uncollected checks are delivered back to the payroll department. They are locked in the Payroll Clerk's lockbox for research and distribution.
- Once a year employees are required to show identification and sign for their paycheck.

FINDINGS AND RECOMMENDATIONS

Based on our interviews, observations and detailed testing, we provide our findings and recommendations to further strengthen the BOCES' 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 it relates to the BOCES' 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 BOCES.

Payroll Procedures

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

Findings:

- We noted that a signature at the building level is not required to acknowledge receipt of regular bi-weekly payroll checks.
- We noted that uncollected checks are returned to the payroll department for research and distribution.

Recommendations:

We recommend the following:

- That the individual distributing the checks at the building level count and sign for the checks to be distributed.
- That uncollected payroll checks be returned for research to someone separate from payroll.

BOCES Corrective Action Plan: We disagree with the first recommendation on the grounds of efficiency with current staffing levels. Simply counting checks will not provide BOCES with a useful benefit. We agree with the second recommendation. Effective July 1, 2015 all returned payroll checks will be given to the BOCES Treasurer for research and/or re-distribution.

Employee Responsible: BOCES Treasurer

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Payroll Accounting-Contractual

Procedure Performed: We obtained a sample of 20 contractual employees to verify the following:

- The employee's salary and/or hourly rate as indicated on the *Payroll Check Register* agreed to the applicable employment contract and/or Board approved pay rate.
- The employee's withholding as indicated on the *Payroll Check Register* agreed to the proper authorization for taxes, retirement system and health/dental/vision benefits.
- Leave allowances are within contract parameters and prior year carryover balances did not exceed the maximum allowed.
- An I-9 form was available for all required employees.

Findings:

- We noted that 2 of the 20 employees tested had excess deductions for health and/or dental insurance coverage withheld during a change in coding for those benefit deductions. One of those employees had their withholding corrected in the subsequent pay period.
- We noted that 2 of the 20 employees tested had compensatory time activity in *Wincap* that did not reconcile to the supporting activity schedule maintained by the department.
- We noted that 1 of the 20 employees tested received one additional floating holiday accrual above the amount granted in the current employee contract.
- We noted that the opening sick leave accrual balances for 1 of 20 employees exceeded the maximum allowed per the contract.
- We noted that the opening vacation leave accrual balances for 3 of 20 employees exceeded the maximum allowed per the contract.
- We noted that for 1 of 20 employees tested the sick leave granted during the year with the prior year carry forward exceeded the maximum number of sick leave days allowed.

Recommendation:

We recommend the following:

- That a detailed review be conducted when there is a change in deductions for health, dental and or vision insurance.
- Compensatory time should be reconciled to supporting details on a regular basis.
- Employees who start after the beginning of the year should receive only the approved allocation of floating holiday time.
- Opening leave balances should be reviewed to limit them to the maximum allotment so that employees will not inadvertently receive more than their entitlement.

BOCES Corrective Action Plan: We accept the first recommendation. We will continue to separate duties by having an individual not involved in the employee and insurance provider level transactions independently reconcile the monthly invoice to the WinCap system. This review will ensure accuracy in both areas.

Employees Responsible: Benefit Clerk and Bookkeeper

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BOCES Corrective Action Plan: *We accept the second recommendation. All compensatory time is now tracked by WinCap.*

Employees Responsible: *Department Director*

BOCES Corrective Action Plan: *We accept the third recommendation. The Director of Human Resources and Professional Development will review attendance balances for all employees, including those hired after the start of the fiscal year.*

Employees Responsible: *Attendance Clerk and Director of Human Resources and Professional Development*

BOCES Corrective Action Plan: *We agree with the fourth recommendation. The Director of Human Resources and Professional Development will review opening attendance balances and annual contractual allotments for all employees. It must be noted that while we accept the spirit of the recommendation, during active employment, BOCES allows vacation and sick time balances to exceed those that are payable to the employee upon departure from BOCES. Upon notice of departure, a detailed analysis is completed by the Human Resources Department, and separately verified by the Business Office. This process ensures that no monies are paid to the employee for time in excess of contractual maximum allowances. This was tested and confirmed during the audit.*

Employees Responsible: *Attendance Clerk and Director of Human Resources and Professional Development*

Payroll Accounting- Non-represented

Procedure Performed: We obtained a sample of 16 non-represented employees who received hourly or per diem pay to verify the following:

- The employee's salary and/or hourly/per diem rate as indicated on the *Payroll Check Register* agreed to the applicable Board approved pay rate.
- The timecard/sheet hours/days agree with those on the *Payroll Check Register*.
- Net salary as indicated on the *Payroll Check Register* agreed to cancelled check (if applicable) or direct deposit batch transfer agreed to the bank statement.
- Direct deposit authorization existed (if applicable).
- The employee's withholding as indicated on the *Payroll Check Register* agreed to the proper authorization for taxes, retirement system and health/dental/vision benefits.
- The employee's withholding as indicated on the *Payroll Check Register* agreed to the proper authorization for other withholdings.

Findings:

- We noted that for 1 of the 16 non-represented employees tested the approved timesheet and the *Payroll Check Register* listed the employee as an Adult Education

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Counselor with a pay rate that exceeded the Board approved Adult Education Rates for Hourly and Per Diem Personnel.

- We noted that for 1 of the 16 non-represented employees tested that the pay rate included an added pay increment for additional services that was not clearly identified on the employee's time record as being performed.
- We noted that for 1 of the 16 non-represented employees tested that the pay rate the employee received was within the range approved by the Board, but that the specific rate was not approved for the individual in the Board minutes.

Recommendation:

We recommend the following:

- Employee's pay rate be based on the Board approved schedules.
- Employees who receive additional remuneration for special work have it documented in the time record that the work was performed.
- Employees with positions that have pay rates that fall within a range be approved by the Board on an individual level and documented in the minutes.

BOCES Corrective Action Plan: We accept the first recommendation. We will ensure that the employee's title in WinCap matches the function being performed and appropriate compensation.

Employees Responsible: Administrative Assistant, Personnel Clerk and Payroll Clerk

BOCES Corrective Action Plan: We disagree with the second recommendation. Time punch codes are created and utilized specifically by employees when additional remuneration is warranted. Two levels of supervisory staff review the activity and must approve prior to it being sent to payroll for processing. We feel this represents sufficient review and documentation to authorize that the work occurred as shown and that payment can be made accordingly.

BOCES Corrective Action Plan: We agree with the third recommendation. We attempt to bring every employee to the Board, even in circumstances where the rate of pay falls within an approved payment range. We will continue to do so, approving individuals for future payment only after including on a Board of Education Personnel Report.

Employees Responsible: Personnel Clerk and Director of Human Resources and Professional Development

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New Hires

Procedure Performed: We obtained a sample of 10 newly hired employees to verify the following:

- The Board approval of the new hire in the Board minutes.
- The employee's salary and/or hourly rate as indicated on the *Payroll Check Register* agreed to the applicable employment contract and/or Board approved pay rate.

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

Overtime

Procedure Performed: We obtained a sample of 5 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.
- The overtime hours worked were properly approved.

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

Stipends

Procedure Performed: We obtained a sample of 9 employees who received stipend pay and verified the following:

- Stipend amounts agreed to employment contracts and/or Board minutes.
- Proper documentation of approval existed such as a time sheet.
- Stipend payments were properly calculated.

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

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Substitutes

Procedure Performed: We obtained a sample of five employees who substituted for a permanent teacher or teacher aide and verified the following:

- Contracted rate agreed to employee contracts and/or Board minutes.
- Proper documentation existed such as a time sheet.
- Employee substituted for was charged with time accordingly.
- Net salary as indicated on the *Payroll Check Register* agreed to cancelled check (if applicable) or direct deposit.

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

Separation Payments

Procedure Performed: We obtained a sample of 9 former employees (3 retirements, 3 resignations and 3 terminations) who received a separation payment to verify the following:

- The employee was entitled to receive a separation payment upon separation from the District.
- The separation payment was calculated in accordance with employment contract stipulations.
- Calculation of the separation payment was properly approved.
- The former employee did not receive compensation subsequent to the date of last separation payout.

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

Permissions

Procedure Performed: We review the permissions of 9 employees with job responsibilities within human resources, payroll and bookkeeping to verify the following:

- The employee was granted only permission to system areas that were reasonable for their job function.
- Inactive administrative employees are excluded from the current permissions report.

Finding: No exceptions were found 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 Commission's Regulation §170.12, a corrective action plan, which had been approved by the Board, must 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 sent to the following address:

New York State Education Department
Office of Audit Services, Room 5244 EB
89 Washington Avenue
Albany, New York 12234
Attention: John Cushin