

July 6, 2021

Board of Education
South Colonie Central Schools
102 Loralee Drive
Albany, New York 12205

RE: District Response to Internal Audit Focus Area

Dear Members of the Board of Education:

The firm Michael Wolff Advisory Services performed an Internal Audit for 2020-2021 school year, which included the focus area covering Payroll. As part of the audit process, they issued a report, dated June 14, 2021. The report was presented to the Board of Education's Audit-Finance Committee on June 29, 2021.

The 2020-2021 Payroll review resulted in the following recommendations.

Recommendation


The District should evaluate the payroll calendar and adjust it to prevent the prepayment of employees. The District may also want to have legal counsel review the collective bargaining agreements to make changes and/or change them as they are renegotiated.


Response

The District has converted their payroll calendar from a bi-weekly to semi-monthly pay calendar to prevent the pre-payment of salaries. **Completed – July 2021**

All other observations or comments will be reviewed by the District.

Sincerely yours,
SOUTH COLONIE CENTRAL SCHOOLS


Anjelieeque Martinez
Business Administrator/
District Treasurer


Sherri Fisher
Assistant Superintendent for
Management Services &
Strategic Planning

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PRESIDENT, BOARD OF EDUCATION

APPROVED BY
BOARD OF EDUCATION

8-10-2021

REPORT TO THE AUDIT COMMITTEE
South Colonie Central School District

REPORT DATE	June 14, 2021
PROCESS REVIEWED	Payroll
DATE OF REVIEW	January - April 2021
SCOPE OF WORK	Transactions for the period July 1, 2020, through February 28, 2021
SCOPE RESTRICTIONS	There were no scope restrictions, however, the focus was on the work performed by the Sr. Account Clerk since there was a change in this position.
CONTROLS REVIEWED	In conducting the internal audit review over Payroll, the following controls were considered and evaluated:
	<ol style="list-style-type: none"> 1. General procedures for processing payroll 2. Authorization 3. Fraud/Risk 4. Monitoring 5. Processing & Recording
TESTING PROCESS	
1. General	<ul style="list-style-type: none"> • Observed and reviewed the operational procedures for processing payroll, substitutes, and retirement/incentive payments. • Interviewed and inquired of key personnel. This included: <ul style="list-style-type: none"> - Sherri Fisher, Asst. Supt. for Management Services - Anjelieeque Martinez, District Treasurer - Matthew Roberts, Senior Payroll Clerk
2. Authorization	<ul style="list-style-type: none"> • Determined that individuals preparing payroll are independent of other payroll and personnel duties and restricted from access to cash, or that there are adequate compensating controls in place. • Determined that responsibilities for payroll accounting are separate from the general ledger function. • Determined that there is restricted access to: <ul style="list-style-type: none"> - Unused payroll check stock; - Signature disk(s)/applications; and - Personnel Records. • Determined that unclaimed payroll checks are properly controlled initially and at the time of their subsequent distribution. • Determined the adequacy of authorization, approval, and documentation regarding changes/additions/deletions made to the payroll master file. Reviewed procedures to ensure all new hires, modifications, and terminations are approved by the Board of Education. • Reviewed the set up of 12 new employees and traced their approval

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	<p>from the Board minutes to documentation within the NVision system, and agreed to the data to each respective collective bargaining agreement (CBAs).</p>
<p>3. Fraud/Risk of Errors</p>	<ul style="list-style-type: none"> • Reviewed the process for controlling check stock custody. • Determined that an individual independent of payroll preparation reconciles the payroll cash account monthly. • Reviewed the transaction history for employees and inquired of any unusual transactions. <ul style="list-style-type: none"> - Verified that wages were allocated to the position to which employees were appointed; - Verified that employees were appointed by the Board of Education. (12 newly hired employees) • Reviewed the payroll certification process and sample three different payrolls and reviewed the documentation and approval of the payroll.
<p>4. Monitoring</p>	<ul style="list-style-type: none"> • Determined that pre-numbered payroll checks are used, the sequence is accounted for, and un-issued checks are controlled. • Inquired as to whether a comparison of actual to budgeted payroll is performed.
<p>5. Processing & Recording</p>	<ul style="list-style-type: none"> • A sample of 12 employees was selected to ensure they were properly established in the payroll system and the data entry process was correct. Established rates were correct and in agreement with CBAs. • A sampling of 256 employees over 12 payroll profile groups was reviewed for accurate data in the computer system. Any anomalies were researched for corrective actions. • Three payrolls were selected and the payroll certification reports were reviewed including the payroll change reports for proper documentation and authorization by the Asst. Supt. for Management Services. • 9 samples from the payroll change report were selected and reviewed to the source documentation for proper authorization and documentation.

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FINDINGS / RECOMMENDATIONS	
1. General Controls	<p>Observations: There were no material findings or exceptions noted in the general controls of processing payroll.</p>
2. Authorization	<p>Observations: There were no material findings or exceptions noted with the segregation of duties with Payroll. Additionally, access to check stock, signature disks, and personnel records appears adequately segregated and secured with access only available to authorized personnel.</p> <p>The review of the 12 sampled employee files noted all employees were properly set up in the nVision payroll module and all were properly documented.</p>
3. Fraud/Risk of Errors	<p>Observations: Payroll expense is the largest expense of the school district and therefore has an increased risk for errors and fraud. The internal controls are in place and functioning for securing the check stock and signature disks.</p> <p>The posting of payroll and General Ledger transactions is properly segregated. Additionally, there is a segregation of duties and an independent review of the bank reconciliation of the payroll account.</p> <ol style="list-style-type: none"> 1. One of the strongest internal controls for payroll is the payroll certification process. This process was reviewed, and a sample of three payroll certifications was selected and reviewed in detail without exception. 2. During our previous payroll audit were recommended a “payroll change report” to be included in the certification process. We reviewed these reports for the 3 payroll certification samples and found all to be well documented and signed off as approved. We selected 9 changes and traced them to supporting documentation and proper authorization without exception. 3. Comment: The review of the payroll process and the payroll calendar noted that the first paycheck for 10-month employees contains a full (10 day) paycheck, even if the employees have worked less. This creates two issues: <ol style="list-style-type: none"> a) The “pre-payment” violates the law for gifting or loaning of public funds. Since the employees haven’t provided a service but are being paid for this service, the employees are essentially getting an interest-free loan. On an employee basis, this amount may not be material, however, collectively, this prepayment is a substantial

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	<p>number out of the payroll system that must be tracked.</p> <p>b) Since the employees are being prepaid in the first payroll, they will continue to be prepaid throughout the year until the final payroll. The risk occurs if an employee leaves employment during the year. The payroll department must consider these prepaid dates and manually subtract them from the employee's final paycheck. If the employee resigns/is terminated without notice the school may be in a situation of trying to collect money back from the employee since they were prepaid.</p> <p>Additional comment – Certain collective bargaining agreements specify the first payday will be the first Friday after the opening of school. This clause conflicts with the legal opinions of the NYS Comptroller and the NYS Education Department. Specific case law (<i>Board of Education of Ramapo CSD v. Ramapo Teachers Association, (1994)</i>).</p> <p>Recommendation: The district should evaluate the payroll calendar and adjust it to prevent the prepayment of employees. The district may also want to have legal counsel review the collective bargaining agreements to make changes and/or change them as they are renegotiated.</p>
4. Monitoring	<p>In addition to the payroll certification process, monitoring budget to actual, overtime expense and period over period comparisons is essential to identify any potential errors. This process is performed by the Asst. Supt. for Management Services and appears to be effective.</p>
5. Process & Recording	<p>In general, the processing and recording of payroll appear to be performed with minimal errors or exceptions. Anomalies noted during our review were identified by the payroll review process and were corrected before our audit.</p> <ol style="list-style-type: none"> 1. Our review of 12 newly hired employees to ensure proper authorization and setup in the NVision system noted no exceptions. All entries were in agreement with CBA's. 2. The review of 256 employees and their set up in the NVision system noted all entries were in agreement with CBA's, or in some cases retroactively to a new memorandum of agreement (MOA). 3. The 3 payroll certification processes reviewed noted proper authorization and appropriate supporting documentation. 4. The 9 samples selected from the payroll change report noted all were appropriately documented and the entries to the NVision system were correct and properly authorized.

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	Overall, we found the transition of the newly hired Sr. Account Clerk to maintain or improve upon the procedures and processes reviewed as part of this audit.
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During the review, observations and recommendations were made to management but were not material and were only suggestions. These recommendations were not material but may improve efficiency.

It was a pleasure working with the employees who participated in this review. If there are any questions concerning this review or report, please feel free to contact me.

Submitted by: _____
Michael T. Wolff, CIA, Internal Controls Auditor

Date: _____

Rose Gigliello
PRESIDENT, BOARD OF EDUCATION

APPROVED BY
BOARD OF EDUCATION
6-29-2021