KATONAH-LEWISBORO SCHOOL DISTRICT
HUMAN RESOURCES AND PAYROLL INTERNAL AUDIT

Date:	October 21, 2016
To:	Marjorie Schiff, Board President
From:	David Moran, Director of Education Practice
Cc:	Audit Committee
	Mike Jumper, Assistant Superintendent for Business
	Debra Legato, Assistant Superintendent for Human Resources
	Andrew Selesnick, Superintendent of Schools
Subject:	Human Resources and Payroll Internal Audit

Background

We have applied certain financial, compliance and operational audit procedures to the Human Resources and Payroll functional areas of Katonah-Lewisboro School District (the "District"). As a result of our most recent Risk Assessment Report, the Audit Committee recommended this area for an in-depth review to determine ways to improve procedures, and establish increased accountability and stronger internal controls.

Audit Scope

Our responsibility was to assess the adequacy and effectiveness of internal controls over certain processes within the Human Resources and Payroll functional areas. We reviewed the period from July 1st 2015 through June 15th 2016. A detailed description of audit work performed is presented in the "Summary of Audit Procedures Performed" section of this report. These audit procedures performed are in accordance with *The International Standards for the Professional Practice of Internal Auditing* promulgated by the Institute of Internal Auditors.

Executive Summary

As a result of the work performed, we noted the following observations that resulted in recommendations designed to improve internal controls and enhance operating policies and procedures. The following recommendations were made:

1. The District should reinforce the need for required Checklists' sign-offs to ensure completeness of necessary documents and management review of the completed tasks.
2. The District has established adequate controls over its payroll process and should continue to reinforce staff awareness and compliance with established protocols.

3. The District has established adequate controls over timesheet reporting and attendance, but given the capabilities of the Aesop's automated system which simplifies and streamlines the process of recording and managing absences and finding substitutes, should evaluate its current manual sign-in/attendance protocols

Based on the results of the procedures performed, the internal control structure is rated as **"*Satisfactory*."** The internal audit rating structure is defined below:

Satisfactory	Indicates an acceptable system of internal control and satisfactory compliance with applicable policies, procedures and regulatory requirements. Findings indicate modest weaknesses that require management's attention.
Needs Improvement	Indicates weaknesses in the system of internal control and/or compliance with related policies, procedures and regulatory requirements. These findings require management's prompt resolution to prevent further deterioration and possible losses.
Unsatisfactory	Indicates significant weaknesses in the system of internal control and/or compliance with related policies, procedures and regulatory requirements. Management's immediate attention to these findings is required to prevent potential loss to the institution.

We met with the Audit Committee on October 17th and discussed this report and our findings and recommendations as well as Management's responses.

We would like to thank the management and staff of the District for the assistance and courtesy extended to us during the course of our audit.

Very truly yours,

Accume Partners

Summary of Audit Procedures Performed

- Procedure 1- Reviewed the District's Board Policies and Department level Human Resources and Payroll policies and procedures.

- Procedure 2- Interviewed District management and staff: Superintendent, Assistant Superintendent for Human Resources, Assistant Superintendent for Business, District Treasurer, District Clerk, Personnel Clerk, Personnel Assistant, Payroll Clerk, Coordinator of Payroll and Benefits, Director of Facilities and the Claims Auditor.

- Procedure 3- Reviewed and tested a sample of 10 randomly selected new employees' files for compliance with on-boarding documentation requirements in FY15/16.

- Procedure 4- Reviewed and tested a sample of 11 randomly selected new employees' files for compliance with employee selected benefits' documentation in FY15/16.

- Procedure 5- Reviewed and tested a random sample of 9 payroll changes originating from approved teacher course approvals' "lane changes" in FY15/16.

- Procedure 6- Reviewed and tested documentation required for all 10 employee terminations in FY15/16.

- Procedure 7- Reviewed and tested a sample of 10 randomly selected employees' time sheets/attendance records in FY15/16.

- Procedure 8- Reviewed and tested a sample of 10 randomly selected employees' stipend payments in FY15/16.

- Procedure 9- Reviewed and tested a sample of 3 randomly selected payrolls in FY15/16.

- Procedure 10- Reviewed and tested the FY15/16 3rd quarter's federal and state payroll taxes.

Recommendations to Enhance the System Of
Internal Controls and Improve Operating Procedures

AREA: HUMAN RESOURCES

Observation:

Internal Audit reviewed the internal controls over obtaining, verifying, and processing of personnel information at the District. Specifically, we reviewed the procedures for processing New Hires, Benefits, Terminations, and changes in Employee Status and Pay related to contracts, stipends, and lane changes. To do so, we interviewed staff, and reviewed existing policies and procedures, as well as the use of standard transaction forms. Also, we randomly selected 50 District employees (10 New Hires, 11 New Employees' Benefits, 10 Terminations, 10 stipends and 9 Lane Changes) to test. We obtained their personnel files, personnel transaction forms, board meeting minutes, contracts, and other related information to ensure the hire, compensation, and termination of District employees was in compliance with Human Resources procedures, Board Policies and applicable laws and regulations. We found no significant exceptions.

Internal Audit noted that the Human Resources function utilizes a New Hire Checklist to process new hires as well as Terminations Checklists to process terminations including resignations and retirements. In addition, Human Resources staff input the employee's position and salary rate into the Human Resources Module of the Finance Manager System. Subsequently, Payroll staff verifies the inputs, as they are copied on all approved personnel transactions. These procedures are examples of Best Practices. However, in our testing we found the following control weaknesses:

- Although the New Hire Checklists were in all of the tested employees' files, 2 were unsigned by the appropriate Human Resources personnel.
- Although the Terminations Checklists were in use, 5 of them were unsigned.
- Employee Network Access deactivation confirmation was missing from 5 files.

School District Risk and/or Opportunity:

School districts should adequately maintain their personnel records, including files, checklists, documents, and other information. Adequate documentation ensures that all the necessary information and approvals were obtained to properly process districts' employees. Districts should require and accept only official transcripts to verify educational credits and degrees. In addition to checklists, an independent review of processing districts' employees in the Human Resources Module of the Finance Manager System protects against data entry errors. Proper internal controls dictate that key processes have a preparer and an independent reviewer. In general, an independent

review is a detective control that adds to the overall strength of the control environment. Management's supervisory role over processing of information into the Human Resources Module of the Finance Manager System as well as final review of checklist items helps to ensure the integrity of the data held within the system, and helps to ensure that all documents were obtained, and all steps have been completed, such as Board approval, for properly processing an employee.

Recommendation:

1. The District should reinforce the need for required Checklists' sign-offs to ensure completeness of necessary documents and management review of the completed tasks.

Management's Response: Management is pleased that there were no significant exceptions found in the on-board or exit processes and personnel files. Management also anxiously awaits the upgrade of its current HRIS system through Finance Manager's new web-based software, nVision. New technologies do allow for all onboarding requirements to be tracked electronically eliminating the need for manual checklists. While the implementation of manual checklists have proven to be helpful, we agree that there should be an additional layer of oversight and follow-up particularly with obtaining signatures of those responsible for securing documents and closing files. The Office of Human Resources will ensure checklists are reviewed and complete while awaiting the implementation of new technology.

Proposed Implementation Date: December 2016

Responsible Parties: Assistant Superintendent for Human Resources
                     Director of Technology
                     Building Principals

AREA: PAYROLL

Observation:

Internal Audit reviewed the procedures for processing, verifying, and certifying the District payroll. Specifically, we reviewed the procedures for inputting payroll transactions into the system, processing bi-weekly payroll, reconciling and certifying payroll, and payment of quarterly federal and state payroll taxes. To do so, we interviewed staff, and reviewed existing policies and procedures, as well as the use of standard transaction forms. Also, we randomly selected 10 employees from four bi-weekly pay periods to test; tested the reconciliation and certification of 3 payroll periods; and selected one quarter's payroll tax forms to test. Similarly we randomly selected 10 stipends to test. We found no significant exceptions.

Internal Audit noted that the Board approved Payroll Certifier, the School Business Administrator and the Payroll Officer both sign/certify the Payroll Register; timesheets (where required) are signed both by Employee and Supervisor, and the Payroll Officer reviews all payroll changes from the previous period's payroll, prior to posting final payroll. These procedures are examples of Best Practices.

School District Risk and/or Opportunity:

Proper internal controls dictate that key processes have a preparer and an independent reviewer. In general, an independent review is a detective control that adds to the overall strength of the control environment. Management's supervisory role over processing of information into the Finance Manager System as well as final review of payroll reports helps to ensure the integrity of the data held within the system, and helps to ensure that all documents were obtained, and all steps have been completed, such as Board approval, for properly processing an employee's pay.

The District should insure that all employees evidence their work on critical reports, either as the preparer or as the independent reviewer. Such actions will not only help to prevent errors but will also serve to ensure that the transaction was valid, was entered correctly, and appropriately approved.

Recommendation:

2. The District has established adequate controls over its payroll process and should continue to reinforce staff awareness and compliance with established protocol.

No Management's Response Required

AREA: TIMEKEEPING AND ATTENDANCE

Observation:

Internal Audit reviewed the procedures over Timekeeping and Attendance for those employees who are required to submit timesheets. For our review, we randomly selected 10 employees from two separate payroll periods. We reviewed the employees' timesheets and/or attendance records and the final payroll register of the corresponding pay period to ensure that the time worked was properly reported, the timesheets were signed by the employees and approved by the Supervisors, and the pay was correctly processed. We found no significant exceptions.

Internal Audited noted that the District established best practices with regards to Timekeeping and Attendance. First, a building office staff member is responsible for maintaining the official attendance records. Also, the District implemented the Aesop on-line tracking system, which

replaced the SubFinder system, whereby employees can directly enter absences, requests for time off, sickness, grading days, and personal days. The building office staff member reviews the Aesop system daily and enters the necessary adjustments into the Finance Manager system after receiving the appropriate supervisors' approvals.

However, in our testing of timekeeping and attendance in the processing of payroll, we found the following inconsistencies:

- Lack of standardization for attendance reporting, varying sign-in sheets, inconsistent sign-offs, and instances of untimely sign-in sheets submission to the District office.

School District Risk and/or Opportunity:

In general, proper internal controls help to ensure that adequate supervisory control and oversight is established over a given process. Proper internal controls over timekeeping gives Management greater assurance that staff is only paid for time worked. In addition, inaccurate time reporting could result in excessive salary expense or violation of wage and hour laws.

Proper internal controls over attendance helps to ensure that staff absences are recorded, leave accruals are calculated appropriately, and the appropriate leave balances are rolled over from one year to the next. A proper absence reporting system can facilitate the maintenance of attendance. In general, this system allows District staff to report absences and find substitutes in a timely and efficient manner. In addition, the system helps to ensure staff leaves are scheduled with minimal disruptions to school operations.

Accurate attendance records are important and help prevent improper separation payments made to employees retiring or resigning from their positions. By requiring staff to sign their timesheets, sign-in sheets, leave requests, and yearly attendance cards, the District increases accountability over the timekeeping and attendance process.

Recommendation:

3. The District has established adequate controls over timesheet reporting and attendance, but given the capabilities of the Aesop's automated system which simplifies and streamlines the process of recording and managing absences and finding substitutes, should evaluate its current manual sign-in/attendance protocols.

Management's Response: Management agrees that an alternative to our current manual sign-in/attendance protocol should be explored. As previously stated, ideally moving to the upgraded version of our current Finance Manager System, nVision, along with AESOP will allow for attendance reporting to be fully on-line and in real-time rather than through paper forms and manual sign-in sheets.

In lieu of the ideal, management agrees that while low-tech the attendance reporting protocols must be reinforced particularly at the building and department levels. Current attendance protocols will be reviewed with administrators and building level clerical staff. District Office staff will be instructed to work closely with those building and department personnel responsible for reporting staff attendance.

Please keep in mind that while the AESOP system does offer significant interface capabilities, along with the ability for employees to request paid leave and other days off electronically, the current collective bargaining agreement will require negotiation to eliminate or change the manual sign-in protocol (see the KLDTA Collective Bargaining Agreement (Article XIV A. 1. (C)) to an on-line format.

Proposed Implementation Date: *December 2016*

Responsible Parties: Assistant Superintendent for Human Resources
Building Principals
Department Heads