

**Wantagh Union Free School District
Report on the Internal Controls of the Payroll Cycle
June 2021**

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Functional Area Exhibit A (please see attached)

I. Scope of Engagement

The Board of Education of the Wantagh Union Free School District has engaged Nawrocki Smith LLP to provide internal audit services with respect to the District's policies, procedures, and internal controls pertaining to the Payroll Cycle. As part of this engagement, we performed extensive analysis and validation tests surrounding the District's policies and procedures of the Payroll Cycle.

The objectives of our audit were to determine if the internal controls within the Payroll Cycle are adequate to ensure that there is proper segregation of duties, employee salaries and pay rates are properly calculated and in accordance with applicable contracts, payroll changes are properly monitored, payroll tax filings are properly completed and timely, employee withholdings are properly reported, and payroll related permissions in the District's accounting system, nVision, are reasonable.

We have analyzed the financial and operational documents made available to us by the District as well as interviewed various employees who have responsibilities within the Payroll Cycle.

Our analysis of this functional area consisted of the following:

- Review of documented policies and procedures applicable to the Payroll Cycle after interviews and discussions with key employees.

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- Identified controls within each functional area of the Payroll Cycle and performed tests of those controls, including a review of payroll for salaried and hourly payments, additional payments, payroll changes, payroll tax filings, employee withholdings, and payroll related permissions.
- Made observations and recommendations pertaining to the internal controls of the Payroll Cycle based upon observed procedures and testing that was performed.

Interviews and inquiries were conducted with the following District employees:

Title	Department
Assistant Superintendent for Business	Business Office
Senior Accountant	Business Office
Payroll Supervisor	Payroll Department

Accordingly, we documented the current procedures within each functional area of the Payroll Cycle by way of a narrative within the attached Exhibit A.

II. General Controls and Governance

The Wantagh Union Free School District has one (1) Board of Education approved policy regarding Payroll. Policy 6800# *Payroll Procedures*, which designates the Superintendent of Schools with the responsibility of certifying each payroll and the Assistant Superintendent/Business Office staff with the responsibility of preparing all payrolls. The policy also notes that the Assistant Superintendent for Business will conduct a periodic test to verify the accuracy and appropriateness of the District's payroll.

We also reviewed documentation related to the November 30, 2020 and December 15, 2020 payrolls to determine if each payroll was properly certified by the Superintendent of Schools.

Observation

We noted that the Superintendent for Schools certified both payrolls noted above by signing the Payroll Check Register Report from nVision. In addition, The Assistant Superintendent for Business completes a payroll analysis annually, when preparing the following year's budget. All current employee salaries, pay rates, and hours are reviewed and verified in order to properly project the following year's payroll expenses.

➤ *No recommendation at this time.*

We reviewed user permissions for all employees within the Payroll module of nVision to determine if user permissions were reasonable and necessary as per their position and job duties.

Observation and Recommendation # 1

We noted that five (5) employees outside of the Payroll Department have data entry permissions within the Payroll module of nVision.

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- *We recommend the District review nVision permissions for the employees noted above to determine if each employee's current permissions are necessary to complete their job duties. Any permissions that are not necessary should be removed in order to ensure that access to the Payroll module of nVision is limited to the appropriate individuals.*

III. Payroll Accounting and Reporting

Contractual Employee Testing

We selected twenty-five (25) active contractual employees to determine if employees are being paid accurately and in accordance with bargaining unit or individual contracts. We completed the following procedures:

- Compared annual employee salaries entered into nVision to the salary for the employee's position or step and level as per the applicable bargaining unit or individual contract.
- Recalculated each employee's annual salary based on the employee's gross pay per payroll period to verify that annual and payroll period amounts are accurate.
- Reviewed annual salary notices for the 2020-2021 school year to determine if employees received and acknowledged their annual salary by signing and returning the notice to the Business Office.

Observation and Recommendation # 2

We noted that annual salary notices are not distributed to all employees. Only teacher aides and monitors receive salary notices.

- *We recommend that the District make every effort to distribute annual salary notices to all employees and follow up with those employees that do not sign and return their annual salary notices. Receiving signed salary notices from employees provides further confirmation of the salary amounts entered into nVision.*

Observation and Recommendation # 3

We noted that one (1) employee's hourly rate was not calculated correctly and the annual entitlement for two (2) employees was not calculated correctly as per the terms of the respective bargaining unit contracts. It should be noted that upon informing the District, each employee's pay rate or subsequent pay period amounts were adjusted in nVision to reflect correct hourly rates or annual entitlements.

- *We recommend that the District review employee pay rates and annual entitlements in nVision at the beginning of each school year to ensure that calculations agree to bargaining unit contract terms. We also recommend that the District review pay rates and annual entitlements for all employees covered by the bargaining unit contracts noted above.*

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Timesheet Testing

We selected twenty-five (25) active employees that were paid per diem, hourly, for overtime, or for stipends such as club coordinator to determine if timesheets were properly completed and employees were paid accurately and in accordance with bargaining unit contracts or Board of Education approval. We completed the following procedures:

- Compared employee pay rates entered into nVision to bargaining unit contracts or Board of Education approval position or step and level as per the applicable bargaining unit or individual contract or Board of Education approval.
- Reviewed timesheets for prior overtime approval, if applicable, proper approvals for payment, and mathematical accuracy.
- Reviewed timesheets to ensure that any hours worked were paid in the proper payroll period.

Observation

We noted that the per diem, hourly, overtime, or stipends payments for the twenty-five (25) active employees selected for testing were in compliance with the objectives noted above.

➤ *No recommendation at this time.*

IV. Payroll Processing and Reconciliation

Payroll Comparison Testing

We compared the employees and their respective pay rates on the November 30, 2020 payroll earnings register to the December 15, 2020 payroll earnings registers to determine if there were any differences in the employees paid on each payroll and the amounts paid to each employee.

Observation

We noted that three (3) contractual employees were paid different amounts on each of the payroll dates noted above. In addition, there were two (2) inactive employees that were paid on the December 15, 2020 payroll. It was determined that the three (3) contractual employees had changes to their leave that affected their pay or a change to their FTE. The two (2) inactive employees were receiving their last paycheck or an adjustment to their last paycheck.

➤ *No recommendation at this time.*

Observation

We noted that seventy-six (76) employees were not paid on both of the payroll dates noted above. However, it was determined that these employees have hourly or per diem positions, were newly hired, came back from a leave of absence, had a step increase, or retro pay.

➤ *No recommendation at this time.*

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Active Employee Testing

We compared a listing of active employees within the District's accounting system to a listing of employees paid on the December 15, 2020 payroll earnings register to determine if there were any active employees that were not paid. We compiled a list of employees that were active but not paid and requested their employee type to determine if it was reasonable for them to be active but not paid.

Observation

We noted that seventeen (17) active employees were not paid on the December 15, 2020 payroll. It should be noted that we did not include seasonal, part time, substitute employees on our list of active employees that were not paid. It was determined that these employees are hourly, per diem, seasonal, or stipend employees that do not work steadily so may not be paid on every payroll. There were also a few employees on leave.

➤ *No recommendation at this time.*

V. Payroll Disbursement

We selected twenty-five (25) active employees to determine if the withholding selections in nVision agreed to the selections made on Form W-4 and Form IT-2104 for each employee and Form W-4 and Form IT-2104 were properly completed and signed by the employee. We also recalculated the withholdings for all twenty-five (25) employees selected for testing.

Observation and Recommendation #4

We noted Form W-4 and Form IT-2104 could not be located for one (1) employee. It should be noted that the employee's file is in storage and no longer maintained within the Payroll Office.

➤ *We recommend that the District confirm the employee's the withholding election and consider having the employee complete an updated Form W-4 and Form IT-2104.*

VI. Payroll Filings

Federal and State Quarterly Tax Returns

We selected Form 941 – *Employer's Quarterly Federal Payroll Tax Return* and Form NYS-45 – *Quarterly Combined Withholding, Wage Reporting, and Unemployment Insurance Return* for the third and fourth quarters of 2020 to determine the following:

- Each tax return is properly approved, mathematically accurate, and submitted timely.
- There is sufficient supporting documentation for each tax return.
- Any prior period credits are accounted for (if applicable), and payments are processed for any balance due (if applicable).

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Observation and Recommendation #5

We noted that Form 941 – *Employer's Quarterly Federal Payroll Tax Return* and Form NYS-45 – *Quarterly Combined Withholding, Wage Reporting, and Unemployment Insurance Return* are not reviewed by an individual other than the preparer prior to filing.

- *We recommend that an individual other than the preparer review Form 941 – Employer's Quarterly Federal Payroll Tax Return and Form NYS-45 – Quarterly Combined Withholding, Wage Reporting, and Unemployment Insurance Return and document their review on a printed copy of each form.*

VII. Risk Rating and Audit Opinion

Inherent Risk:

Control Risk:

Audit Opinion:

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RISK RATING DEFINITIONS

Inherent Risk – Inherent risk is the risk of a material misstatement in the un-audited information assuming the absence of internal control procedures. Inherent risk includes any risk arising from fraud. As with other risks, inherent risk may be evaluated at various levels of aggregation (e.g. financial statement level, account balance assertion level) and at various stages during the course of the audit (e.g. client acceptance/retention state, audit planning stage, etc.).

***Inherent Risk** is particular to the area being reviewed if there were no controls in place. Thus, if there were no control procedures in place pertaining to the particular area, what is the risk of a material misstatement.*

Control Risk – Control risk is the risk that a material misstatement in the un-audited information will not be detected and corrected by management's internal control procedures on a timely basis. Auditors evaluate control risk at the account balance assertion level based on a detailed knowledge of the client's business. Auditors may evaluate this risk in the second, third, and fourth audit stages, namely the audit planning, control testing, and substantive testing stages.

***Control Risk** is particular to the District's controls currently in place in the area being reviewed. Thus, what is the risk of a material misstatement with the control procedures currently in place.*

Audit Opinion – Based upon the audit work performed and our assessment of the controls within each particular audit area an audit opinion is provided for each audit area from one of the following three (3) categories:

Satisfactory:	Controls are operating effectively
Needs Improvement:	Controls need improvement for effectiveness
Unsatisfactory:	Controls are unacceptable and need immediate improvement

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Auditors Spoke with:

Assistant Superintendent for Business – Anthony Cedrone
Senior Accountant – Melita Calpakis
Payroll Clerk (DJ) – Dimple Joshi
Payroll Clerk (JR) – Jeanine Reale

The following is a narrative, or a sequence of events, which describes the step by step process within the Payroll function of the Wantagh Union Free School District. The narrative was derived from discussions and interviews with key personnel as well as observations of each step in process. The Payroll function has been outlined by area for ease of reference, including the following areas:

- I.** General Controls and Governance
- II.** Payroll Accounting and Reporting
- III.** Payroll Processing and Reconciliation
- IV.** Payroll Disbursement and Overtime Reporting
- V.** Payroll Filings

Blue = Internal Control

I. General Controls and Governance

- The District has a Board of Education approved policy, *Policy# 6800 Payroll Procedures*, which designates the responsibility to oversee and certify payroll to the Superintendent of Schools.
- Overall payroll processing is the responsibility of the Assistant Superintendent for Business Services and the Business Office staff.
- The Assistant Superintendent for Business completes a payroll analysis annually, when preparing the following year's budget. All current employee salaries, pay rates, and hours are reviewed and verified in order to properly project the following year's payroll expenses.
- The Human Resources Department generates annual salary notices from the District's accounting system, nVision, at the beginning of each school year for aides and monitors.
- Each salary notice includes the employee's name, level, step, gross salary per pay, and annual salary amount.

II. Payroll Accounting and Reporting

Data Entry

- After each Board of Education meeting, the District Clerk sends a copy of the Board agenda to the Human Resources Department and Payroll Department. The agenda includes new hires, terminations, or changes in positions and pay rates.
- The Human Resources Department is responsible for adding new employees to human resources module of nVision.
- The Payroll Department is responsible for activating new employees in the payroll module of nVision.
- The employee must be added in the human resources module before they can be activated in the payroll module.
- In addition to salary, the Payroll Department also enters all payroll deductions or changes to these deductions. This includes direct deposit information, dues, retirement contributions, and insurance contributions.

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Contractual Employees

- Payroll information for each employee is entered directly into the payroll module of nVision as per bargaining unit contracts, individual contracts, or Board of Education approval for new hires.
- If the employee starts mid-year, an Excel worksheet is used to calculate the pro-rated salary.
- Per-pay, daily, and hourly rates per employee are automatically calculated in nVision based upon the base contract amount and number of pays.
- The annual entitlement, or limit, for each contractual employee is based upon the FTE percentage, the employee's step, lane, anniversary date, start and end date for the school year, and bargaining unit contract.
- Annual salary changes are updated as per bargaining unit or individual contracts. Other salary changes, such as a change in position or level, are updated as per Board of Education approval and proper supporting documentation, if applicable.
- [Level changes due to education credits are reviewed by the Human Resources Department and approved by the Board of Education.](#)
- The Payroll Department will update the employee's salary information based on the Board of Education agenda received from the District Clerk.

Timesheets:

- A pay schedule is distributed to all buildings at the beginning of the school year which states when timesheets are due for each pay period.
- Timesheets are typically due a week prior to the pay date.
- Timesheets are only used for substitute employees and salaried employees receiving extra pay.
- Extra pay can be for overtime, tutoring, covering additional classes, etc.
- Aides and monitors receive an hourly pay rate based on their bargaining unit agreement. This hourly rate is converted to a salary based on estimated hours to be worked.
- Teachers, aides, and monitors sign in at the building each day for attendance purposes.
- Attendance is monitored by the Human Resources Department.
- If an employee needs to be docked time, the Human Resources Department will send an email to the Payroll Department with the employee name and time to be docked.
- [Timesheets are reviewed and approved by the employee's supervisor or department head prior to entry by the Payroll Department.](#)
- Unsigned timesheets are returned directly to the employee's supervisor or department head to be approved before processing.
- The Payroll Clerks review the timesheets to ensure that all of the proper approvals have been obtained and that the hours worked are mathematically correct.
- The rate and amount to be paid is written on the timesheet.
- Hours or days worked are entered into nVision by the Payroll Department as per properly reviewed and approved timesheets.

III. Payroll Processing and Reconciliation

- All District employees are paid on a semi-monthly basis except for the Buildings and Grounds Department employees, who are paid on a bi-weekly basis.
- The Payroll Clerks process payroll through nVision.
- The Payroll Clerks start the payroll process by entering time worked as per approved timesheets into nVision.
- Rates have already been entered into nVision, as noted above, so each employee's payment amount is automatically calculated once the hours are entered.

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- [Each Payroll Clerk will review the others work to ensure all timesheet information has been entered correctly.](#)
- Once all timesheets are entered and reconciled, the Payroll Department computes the pay due to the salaried employees based upon the amounts already entered into nVision.
- The Payroll Clerks maintain a folder with support for all changes to the payroll including the Board agendas listing new hires and terminations or new withholding forms submitted by employees.
- [A payroll change form is compared to the documentation in the folder to ensure all changes are recorded correctly.](#)
- After the Payroll Clerks reconcile their work, the Senior Accountant is notified that the payroll is ready for review.
- The Senior Accountant runs a payroll comparison report to review earnings, deductions and budget code changes.
- [Each payroll, the Senior Accountant selects a sample of changes and reviews to the support maintained by the Payroll Department.](#)
- The Senior Accountant will sign and date the report to indicate her review and document that no further changes can be made to this payroll.
- [Payroll checks are signed by the Treasurer](#) [REDACTED]
- The nVision transaction journal, check register and payroll change analysis are sent to the Superintendent.
- [Payroll is certified by the Superintendent of Schools.](#)
- The Senior Accountant posts the payroll in nVision and distributes to the general ledger.
- Journal entries for withholding remittances are entered by the Senior Accountant and approved by the Assistant Superintendent for Business.

IV. Payroll Disbursement

- The District utilizes [REDACTED]
- [REDACTED]
- Employees who receive direct deposit no longer receive a paper check stub.
- The Payroll Clerk (DJ) processes the direct deposit file using an upload directly from nVision and the Assistant Business Manager will approve the upload.
- Few live checks are printed each pay period.
- Due to COVID-19, the District revised their paycheck distribution procedures.
- In the past, checks were sent to each building for distribution to employees.
- Employees would sign for their checks and signature sheets would be returned to the Business Office.
- Unclaimed checks would be mailed to the employee's home.
- Currently, all checks are mailed to the employee's home immediately after printing by the Payroll Department.
- Bank transfers to fund the payroll are processed by the Treasurer.
- The Payroll Clerk (DJ) prepares a transfer report that shows the total payroll and amount to be transferred from each fund.
- The Assistant Superintendent for Business approved templates within the online banking platform for tax and OMNI withholding remittances.
- The Treasurer enters the date and amount into the online banking platform to wire the funds to the applicable recipient.

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Overtime:

- As noted above, timesheets are used to record overtime worked for salaried employees.
- Employees are not required to get written pre-approval of overtime hours to be worked.
- If pre-approval is obtained, it is verbal.
- [Timesheets are reviewed and approved by the employee's supervisor prior to entry by the Payroll Department.](#)
- Buildings and Grounds employees use a timeclock to punch in and out each day.
- The Maintenance Supervisor reviews daily punches and creates a summary sheet of each employee's regular and overtime hours that is forwarded to the Payroll Department.
- This summary sheet is used to enter overtime for Buildings and Grounds employees.

V. Payroll Tax Filings

- The Payroll Clerk (DJ) prepares Form 941 – *Employer's Quarterly Federal Payroll Tax Return* and Form NYS-45 – *Quarterly Combined Withholding, Wage Reporting, and Unemployment Insurance Return*.
- Form NYS-45 is completed and submitted online. The Payroll Clerk (DJ) prints a copy of the submitted form and confirmation to be filed and maintained in the Business Office.
- Form 941 is completed online but printed and mailed.
- [The Payroll Clerk \(DJ\) reconciles the tax payments made to the information in nVision prior to completing the forms noted above.](#)
- The Payroll Clerk (DJ) creates Form W-2 – *Wage and Tax Statements* for all employees from nVision based upon year-end payroll figures.
- W-2 forms are printed and mailed to employees.
- Employees can also view their W-2 [REDACTED]
- The Payroll Clerk (DJ) generates monthly TRS and ERS reports from nVision and reviews employee salaries to ensure the reports are accurate and any adjustments have been properly updated.