

FRONTIER CENTRAL SCHOOL DISTRICT



INTERNAL CONTROL SYSTEM TESTING

FRONTIER CENTRAL SCHOOL DISTRICT



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INTRODUCTION

In June, 2015, we issued a risk assessment report to the District, which was based primarily on a series of interview sessions we held with District personnel, as well as some testing focused on the operation of District's internal controls. The objective of the risk assessment update was to gain an understanding of how management identifies, analyzes, and takes action to address risks relevant to the District's financial reporting and compliance objectives. Our assessment considered the District's control environment, along with the specific controls currently in place at the system level.

Based on the risks identified during the initial risk assessment and updates, the audit committee and management selected the area below for further testing. The report we are now issuing describes the specific testing we performed during December 2019, along with the results of that testing and our recommendations.

AREA TESTED

- Payroll

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PAYROLL

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PAYROLL

The first step in completing the test of internal controls over payroll was obtaining an understanding of the processes the District currently has in place. We held interviews with various district personnel and inquired about the following processes.

- Process for adding new employees
- Process for deleting terminated employees
- Process for inserting pay rates into the system
- Process for changing pay rates
- Process for certifying payroll
- Process for making adjustments/corrections to payroll system.
- Process for reviewing adjustments/corrections to payroll system.
- Process for completing form 941s
- Process for reconciling withholding accounts
- Process for printing checks
- Process for signing checks
- Process for distributing checks to employees
- Process for establishing direct deposit accounts
- Process for wiring funds to and from payroll account
- Process for preparing and reviewing bank reconciliations
- Understanding of who has access to payroll module

Procedure 1: Full Time Contractual Employees

We selected a sample of 13 full-time contractual employees to review their rate of pay for a selected pay period (within the July 1, 2018 through April 30, 2019 timeframe) and determined if it is consistent with their current contract/salary agreements. Payment were traced to cancelled check or direct deposit remittance. We also selected 3 employees from the 13 selected above and obtained a report that documents payroll for the employee during the period from July 1, 2018 through April 30, 2019. We reviewed the report for unusual transactions during this period.

Results:

We verified that all individuals were paid the correct rate per their applicable contract during the period tested and any additional pays had proper substantiation, without exception.

Recommendations:

No recommendations related to the full time contractual employees are being made at this time.

Procedure 2: Part Time and Hourly Employees

We selected sample of 12 part-time or hourly employees/substitutes to review their rate of pay for a selected pay period (within the July 1, 2018 through April 30, 2019 timeframe) and determined if it is consistent with their current contract/salary agreements or as authorized by the Board of Education. The hours worked during the selected pay period were reviewed against a timesheet, and the timesheet was scrutinized for accuracy and proper approval. Payments were traced to cancelled check or direct deposit remittance. We also selected 3 employees from the 12 selected above and obtained a report that documents payroll for the employee during the period from July 1, 2018 through April 30, 2019. We reviewed the report for unusual transactions during this period.

Results:

We verified that all individuals were paid the correct rate per the applicable contract during the period tested and any additional pays had proper substantiation, without exception.

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PAYROLL (CONTINUED)

Recommendations:

No recommendations related to the part time and hourly employees are being made at this time.

Procedure 3: Substitutes

We selected 5 substitutes that worked during the period from July 1, 2018 through April 30, 2019 and selected one of their paychecks to verify that they were paid according to the District's pay rates for substitutes. Payments were traced to cancelled check or direct deposit remittance.

Results:

We verified that all individuals were paid the correct rate per the applicable contract during the period we were tested.

Recommendations:

No recommendations related to the substitutes are being made at this time.

Procedure 4: Personnel File

For the selected employees, we also reviewed their personnel files to determine that the following items exists: W-4 Form; fingerprinting/clearance form; and teaching certificate, if applicable. Files were also reviewed to determine whether the employee received a salary notification with regards to the 2018-19 fiscal year.

Results:

The following was noted in relation to personnel file testing:

- 28 of 30 employee's personnel files contained a completed W-4
- 19 of 19 employee's personnel files contained fingerprinting documentation (11 Individuals were employees prior to the Safe Schools Against Violence in Education Act and therefore not subject to fingerprinting)
- 13 of 13 employee's personnel files contained teacher's certificate when applicable.
- 25 of 25 employee's personnel files contained signed salary notifications.

Recommendations:

We recommend that a periodic review of personnel files be completed to ensure that all required documentation is on file for each employee. The District should also obtain W-4s for the two employees that lacked such documentation in their file.

Procedure 5: Tax Withholdings

We compared payroll tax withholdings from payroll records for one pay period (within July 1, 2018 through April 30, 2019 timeframe) and verified that the amount was remitted to the Federal and State government in a timely manner.

Results:

We verified the payroll tax withholding was for the correct amount and was remitted to the Federal and State governments by the applicable due date.

Recommendations:

No recommendations related to payroll withholdings are being made at this time.

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PAYROLL (CONTINUED)

Procedure 6: IRS 941

We reviewed IRS Form 941 for the quarter ended March 31, 2019 and verified this form was timely filed. We reviewed whether supporting documentation from the District's payroll register reconciles to amounts reported on the quarterly report. In addition, we determined whether someone within the District other than the preparer, adequately reviewed forms prior to submission to Federal and State governments.

Results:

We reviewed the IRS 941 and determined that the report was filed timely, agreed to supporting documentation and was reviewed by an individual independent of the process.

Recommendations:

No recommendations related to IRS 941s are being made at this time.

Procedure 7: 403(B) Documentation

We selected a sample of 10 employees (from the 25 selected above) and determined whether employee contributions related to the 403(B) plan were accurate and consistent with what the employee elected to contribute.

Results:

For 1 of the 10 employees we tested, no salary reduction agreement was provided nor was any substantiation as to the amount withheld for each pay.

Recommendations:

We recommend that a periodic review of personnel files be completed to ensure that all required documentation is on file for each employee.

Procedure 8: Federal Certification

We selected a sample of 5 employees working in the Federal grants program (from the 25 selected above) and verified that certifications of time were completed.

Results:

We verified that all certifications related to federal time worked were completed timely for 5 employees.

Recommendations:

No recommendations related to federal certifications are being made at this time.

Procedure 9: Employee Stipends

We selected a sample of 5 employees (from the 25 selected above) who were paid stipends for additional duties for being a coach, advisor, mentor, etc. and verified that the amount paid was consistent with the employment contract or District policy.

Results:

We verified that all stipends for additional duties were paid at the correct rate for 5 employees.

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PAYROLL (CONTINUED)

Recommendations:

No recommendations related to employee stipends are being made at this time.

Procedure 10: Withholding Account Reconciliation

We reviewed the withholding accounts for month of February 2019 to determine if a reconciliation was completed.

Results:

After a discussion with District personnel a formal reconciliation of the withholding accounts is not completed. The District Treasurer will review the withholding accounts in the general ledger and verify that the withholdings are being remitted to the correct vendors on a monthly basis and that accounts that should be zero balances in fact clear to zero. However it was noted that the District has accounts related to balances held by a third party administrator for FLEX and HRAs. A reconciliation of these balances to documentation from the third party administrator is not completed.

Recommendations:

We recommend that the District begin reconciling the FLEX and HRA trust and agency accounts to reports provided by the third party administrator to ensure that balances held by the District in the trust and agency funds are accurate, as any difference would impact the General Fund. The reconciliation of withholding accounts should be formalized with appropriate documentation.

Procedure 11: Terminated/Retired/Resigned Employees

We selected 5 employees' terminated/retired/resigned during the period from July 1, 2018 through December 31, 2018 and determined when removed from the payroll system.

Results:

All 5 individuals who terminated/retired/resigned were made inactive in the system with 10 days of their date of their withdrawal from the District.

Recommendations:

No recommendations are being made at this time.

Procedure 12: Bank Reconciliations

We reviewed payroll bank reconciliations for the months of October 2018 and March 2019, and determined whether cash balances were adequately reconciled. This included an examination of the reasonableness of reconciling items and the segregation of duties over the reconciliation function.

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PAYROLL (CONTINUED)

Results:

Both months reviewed were completed timely by an individual outside of the payroll function and were reviewed by the district treasurer however the date the reconciliation was completed and approved was not documented. All bank reconciliations are completed to be included in the following month's treasurer's report to the Board of Education. Therefore we can conclude that timeliness of completion is not an issue.

Recommendations:

We recommend the date the bank reconciliation is completed and the date it is reviewed be added to the bank reconciliations.

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CONCLUSION



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CONCLUSION

The District's internal controls over the payroll continue to be strong and well developed. Based on our internal audit testing, the payroll processes as tested in this report appear to be functioning adequately. We have the following recommendations.

Personnel File

We recommend the District complete a review of personnel files to determine that all applicable employee documentation is completed and located in the file such as W-4 and 403(B) deferral documents.

Trust and Agency Review

We recommend the District formalize its process for reviewing trust and agency accounts on a monthly basis to ensure that withholdings are properly being remitted. In addition we recommend that the accounts that have balances administered by a third party be reconciled to records provided by the third party.

Bank Reconciliations

We recommend the district formalize the documentation of the date of completion and date of review of the bank reconciliations.

Our next follow-up visit is scheduled for May 2020, at which time we will perform another series of testing based. We will also continue to follow-up on the items addressed in this report to assess the District's progress in enhancing its internal control procedures.