

**BALDWINSVILLE CENTRAL SCHOOL DISTRICT**

**Independent Internal Audit Report  
Payroll Function**

**2021-2022**

May 16, 2022

Audit Committee Members  
Baldwinsville Central School District  
29 East Oneida Street  
Baldwinsville, New York 13027

Dear Audit Committee Members:

Bonadio & Co., LLP was engaged by the Baldwinsville Central School District (the District) to fulfill the requirements of the Internal Audit Function in accordance with the provisions of the 2005 Public School District Accountability Act. We have been contracted by the District to evaluate the policies and procedures in place regarding the internal controls over the payroll function, and conduct reperformance and recalculations.

The results of our testing, which are included in this report, have been communicated to the District Administration. District Administration has responded to this report under separate cover.

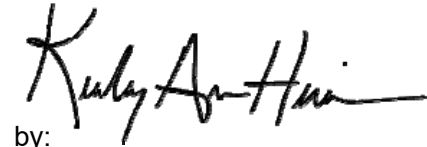
This report is intended solely for the information and use of the District Administration, the Audit Committee, and others within the District and is not intended to be and should not be used by anyone other than those specified parties.

We would like to acknowledge the cooperation extended to us by the employees of the District during this engagement.

If you have any questions concerning this report, please feel free to contact us at any time.

Very truly yours,

BONADIO & CO., LLP



by:  
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**SECTION I: EXECUTIVE SUMMARY**

**Purpose and Scope**

The objective of this engagement is to perform transactional testing and recalculation of payroll transactions, with a specific focus on hourly employees and substitutes, during the time period January 1, 2021 through December 31, 2021. Additionally, we will obtain an understanding and document the timeline of events surrounding the processing of payroll. Furthermore, B&Co. will consider the design and effectiveness of the internal control environment surrounding the review process over the payroll function of the Baldwinsville Central School District (the District).

In performing our engagement, we relied on the accuracy and reliability of information provided by District personnel. We have not audited, examined or reviewed the information, and express no assurance on it. Had we performed additional procedures, other matters may have come to our attention that would have been reported to you in our Findings and Recommendations section of this report.

With regards to sampling methodology, B&Co. selected individuals and/or transactions for testing based upon professional judgment or through the use of haphazard sampling as referenced throughout page 3. Haphazard sampling is defined as sampling through means in which do not meet the definition of systematic sampling or randomization.

**Responses from Administration**

The District Administration's responses to our findings identified in our report are described as part of a corrective action plan assembled by Administration under separate cover. We did not audit the District's responses and, accordingly, we express no opinion on them.

**Confidentiality**

This report is confidential and should be distributed only to those with a need to know and who are authorized to the information; the District Board of Education, the District Superintendent, or the Assistant Superintendent for Administration. Bonadio & Co., LLP (B&Co.), the Internal Auditors, must approve the release of this report to anyone outside the District.

**SECTION II: TESTING PROCESS**

We considered and evaluated the following controls:

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| 1. General   | <ul style="list-style-type: none"><li>• B&amp;Co. interviewed key personnel including Wendy Conway, Payroll Clerk; Timothy Lynch, District Treasurer; and Kimberly Vile, Assistant Superintendent for Management Services.</li></ul>   |
| 2. Understanding of the Design of the Internal Control Environment           | <ul style="list-style-type: none"><li>• We reviewed existing documented policies and procedures over the payroll function.</li><li>• We observed key personnel performing job duties.</li></ul>  |
| 3. Assessing the Operating Effectiveness of the Internal Control Environment | <ul style="list-style-type: none"><li>• We assessed the effectiveness of the design of existing policies and procedures through performance of walkthroughs, transactional testing, recalculations, and review of evidence for the existence of key controls.</li></ul>                                    |
| 4. Assessing Identified Risks  | <ul style="list-style-type: none"><li>• B&amp;Co. identified areas of risk over the payroll function and designed procedures in response to risks surrounding the compensation of hourly and substitute employees, and the overall timeline of the payroll process including the review process.</li></ul> |

**SECTION II: TESTING PROCESS (CONTINUED)**

5. Procedures and Testing

- We reviewed and documented the key controls over the preparation, review and processing of payroll. Additionally, we will review and document an understanding of the payroll processing timeline – see Section III.
- We obtained a payroll ledger detail by individual employee for each pay period from January 1, 2021 through December 31, 2021. We selected a sample of 10 pay periods and chose the two highest compensated individuals who serve in an hourly employee capacity from the selected pay periods to determine appropriateness and accuracy of amount paid (based upon hourly rate and number of hours worked).
- We selected the five highest paid substitute employees during the period January 1, 2021 through December 31, 2021 and performed an analysis of variations in compensation from pay period to pay period. We obtained and reviewed supporting documentation (approval of pay rate, timecards, etc.) for individual selections made based on auditor judgment (a total of 11 pay dates were selected for further evaluation).
- We haphazardly selected an additional 20 hourly or substitute employees during the period January 1, 2021 through December 31, 2021 and performed an analysis of variations in compensation from pay period to pay period. We obtained and reviewed supporting documentation (approval of pay rate, timecards, etc.) for individual selections made based on auditor judgment. Seven employees for a total of eleven pay dates were selected for further evaluation.
- We obtained a listing of all payroll run dates during the period January 1, 2021 through December 31, 2021 and compared that to the pay date calendar established by the District in order to identify and investigate any unusual pay dates. For the five pay dates identified that differed from those dates on the payroll calendar established by the District, we obtained an explanation for the additional payroll run and reviewed supporting documentation for accuracy and appropriateness of amount paid.
- We obtained a payroll ledger detail by individual employee for each pay period from January 1, 2021 through December 31, 2021. We identified instances of negative pay amounts (identified 223 instances for a total aggregating \$36,433), indicating a correction in pay, and made a haphazard selection of five. For each selection we obtained an explanation for the correction and reviewed supporting documentation to determine if the transaction was appropriate and accurate.

## **INTERNAL AUDIT FY 2022 – PAYROLL FUNCTION**

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### **SECTION III: PAYROLL TIMELINE**

Pay dates occur on a semi-monthly basis – this began on July 1, 2021. Prior to this, the District used a biweekly pay schedule.

Each fiscal year, the payroll clerk creates a payroll processing calendar showing all pay dates as well as the date payroll needs to be processed. Example: 3/15 pay date encompassed the pay period of 2/16-2/28 with a processing date of 3/9.

The following steps occur as part of the processing of payroll each pay period:

1. Open new pay period within the WinCap accounting software. Typically this is done in conjunction with the completion of the most recent payroll run.
2. Between the end of each pay period and the payroll processing date the payroll clerk collects employee timesheets, which are due on the processing date (in this example is 3/9).
  - Paper timesheets are received for – Home Instruction, Library, and the Business Office.
  - All other departments and buildings time is submitted through WinCap by the department supervisors and building administrators.
3. Prior to completion for processing payroll, the Payroll Clerk will print out and review the “Salaried Employees Payroll Change Report” on the payroll processing date (in this example, 3/9). Additionally, this report will be provided to the Assistant Superintendent for Management Services for review. The Assistant Superintendent for Management Services will review and sign off on this report with approval.

*NOTE: The “Salaried Employees Payroll Change Report” is a report generated from WinCap that will identify any change in compensation from the most recent payroll run, for any salaried employee. At times, handwritten notations will be included explaining variances such as new hire, resignation, new hourly rate for contractual obligations etc.), however, explanation is not documented for every instance.*

4. Payroll processing must be completed and submitted (including upload to the bank for direct deposit recipients, and upload to BOCES for manual check recipients) at the latest 2 days prior to the pay date (in this example, 3/13) to allow for direct deposits to go through on a timely basis.
5. Manual checks – approximately 45 to 50 per payroll. Arrive to the District via BOCES Courier the day after payroll process is complete. Checks for substitute teachers are placed in the mail 2 days prior to the pay date so they can arrive on time for the pay date. One day before pay date, all other manual checks are delivered via in-house courier to the individual district buildings. They are distributed to employees on the pay date.

**SECTION IV: FINDINGS AND RECOMMENDATIONS**

The findings and recommendations below are based on our observations, inquiries, evaluation and recalculation of sampled payroll transactions.

**1. Finding**

Currently timesheets are due no later than the payroll processing date of which is typically 6 days before the pay date. This timeline provides little time for review and oversight of said information. In addition, the payroll change report reviewed by the Assistant Superintendent for Management Services is provided no earlier than the payroll processing date, again providing only a short opportunity for a meaningful review.

**Recommendation**

We recommend management discuss the payroll processing timeline to determine if any of the due dates or dates of significance can change to ensure a more effective and timely payroll process. For instance, the District may want to consider requiring timesheets be due much sooner than 9 days following the end of the pay period. In addition, given the current payroll change report only includes salaried employees, perhaps this report can be run as soon as the pay period has closed and provided to management to allow for a more detailed review given that timesheets are not required to prepare the data.

**2. Finding**

Before payroll processing is completed, the Assistant Superintendent for Management Services reviews the payroll change report, which shows a payroll comparison between the current and previous payroll run for both salaried employees and annualized hourly employees. Although minimal in relation to total payroll, what is excluded from this report is payroll associated with substitutes, or time incurred by an hourly employee that is outside of the scope of their annualized hourly duties (i.e. attending a training, overtime etc.). In addition, a payroll change report would not necessarily capture things such as negative payroll or an on-demand check.

**Recommendation**

Given the fact that the payroll change report does not encompass 100% of the total payroll expense of each pay period, we recommend management identify other means that will allow the Assistant Superintendent for Management to also review those amounts excluded from said reporting given the presumed greater risk for error, override and variation pay period to pay period of this particular type of payroll transaction(s).

**INTERNAL AUDIT FY 2022 – PAYROLL FUNCTION**

**3. Finding**

There were 5 instances noted where an on-demand check was written to employees on a date outside of the normal scheduled pay dates. In each instance the payroll clerk obtained supporting documentation and an explanation approved by the employee's supervisor. This only makes up 0.0016% of total payroll for the calendar year ending December 31 2021.

The following dates represent those instances where an on-demand special payroll run was done:

<u>Pay date</u>	<u>Amount</u>
1/19/2021	\$394.32
1/26/2021	75.74
4/6/2021	68.57
8/2/2021	102.70
11/29/2021	266.19
	<u>\$907.52</u>

Total Payroll for 12 months ending 12/31/2021: \$ 56,246,147

as a % of Total 0.0016%

**Recommendation**

We recommend if there is an on-demand payroll check that the Assistant Superintendent for Management Services also reviews and approves this transaction. In addition, given the fact that each pay period is assigned a pay period number, the Assistant Superintendent should review the Detailed Payroll Check Register each pay period and determine the pay period number has not broken sequence from the last pay period which could indicate an on-demand special payroll run occurred. Furthermore, the Detailed Payroll Check Register should be reviewed to determine there are no other pay dates included that are outside of the scheduled pay date, again indicating an on-demand special payroll run occurred.



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**4. Finding**

There were several instances noted where an employee received negative pay adjustments in order to correct an error in pay. In these instances, the payroll personnel either noticed an error, or they were notified by the employee that there was an error in their pay. These pay corrections are not reviewed by the Treasurer or the Assistant Superintendent for Management Services. Such amounts comprised of 0.0648% of total payroll for the 12 months ending December 31, 2021.

Number of instances where a negative pay adjustment was required for the 12 month period ending 12/31/2021:		223
Dollar amount of negative pay adjustments processed for the 12 month period ending 12/31/2021:	\$	36,433
Total value of payroll for the 12 months ending 12/31/2021:	\$	56,246,147
	as a % of Total	0.0648%

\* one overpayment to 1 employee was \$10,257

**Recommendation**

We recommend the District design and implement a process that will require the Treasurer and Assistant Superintendent of Management Services to review and approve negative pay adjustments. As a mitigating control, these individuals should review the detailed payroll check register exported into Microsoft Excel, and sort by dollar amount to determine if any negative pay adjustments are being processed during each pay period.

**5. Finding**

In one instance tested it was noted that a timesheet was not signed off by the employee's supervisor. When we inquired of management, the response indicated this timesheet may have been part of a mass approval from the supervisor or member of management. The Payroll Clerk was not able to provide evidence this approval was obtained prior to processing payroll.

**Recommendation**

We recommend that all timesheet approvals be obtained and retained to provide evidence that a supervisor reviewed and approved the timesheet. This is consistent with the District's current internal controls.

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**6. Finding**

As part of testing, we identified the 5 highest paid substitute employees for the 12 months ending December 31, 2021. We reviewed the detailed payroll register for each of those individuals with a focus on examining unusual number of hours worked or unusual changes in hourly rates.

We identified one instance that had not been corrected where an employee was overpaid by \$4.61 due to the fact that the employee was paid an hourly rate for driving the bus rather than the lower hourly rate for attending a child abuse safety course.

1 instance of an overpayment due to reduce hourly rate for attendance at a child abuse safety meeting, contrary to the hourly rate earned when driving the bus.	\$	4.61
Total compensation of the 5 highest paid substitute employees for the 12 months ending 12/31/2021:	\$	89,607
as a % of Total		0.0051%

**Recommendation**

We recommend management take the necessary steps to correct the overpayment discovered above. In addition, based upon the specific cause, management should determine if additional analyses should be performed to ensure no other unidentified errors occurred on this particular date.

**INTERNAL AUDIT FY 2022 – PAYROLL FUNCTION**

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**7. Finding**

As part of testing, we haphazardly selected 20 hourly or substitute employees for the 12 months ending December 31, 2021. We reviewed the detailed payroll register for each of those individuals with a focus on examining unusual number of hours worked or unusual changes in hourly rates.

We identified four instances in which an employee was either overpaid or underpaid resulting from the incorrect use of an hourly rate.

1 instance of underpayment to an employee who was paid at the rate of a bus attendant rather than a driver.	\$	3.19
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Total compensation for 20 hourly or substitute employees that were haphazardly selected for further testing.	\$	162,382
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as a % of Total		0.0020%
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1 instance of underpayment to an employee who was paid at an incorrect rate used for training rather than the appropriate hourly rate earned for driving.	\$	67.05
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Total compensation for 20 hourly or substitute employees that were haphazardly selected for further testing.	\$	162,382
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as a % of Total		0.0413%
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1 instance of overpayment to an employee who was paid at an incorrect rate for staying after school with a child who was not picked up.	\$	7.44
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Total compensation for 20 hourly or substitute employees that were haphazardly selected for further testing.	\$	162,382
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as a % of Total		0.0046%
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1 instance of overpayment to an employee who was compensated as a substitute teaching assistant in error, rather than a substitute typist.	\$	0.40
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Total compensation for 20 hourly or substitute employees that were haphazardly selected for further testing.	\$	162,382
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as a % of Total		0.0002%
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**Recommendation**

We recommend management take the necessary steps to correct the under/overpayments discovered for each instance noted above. In addition, based upon the specific cause associated with each instance noted above, management should determine if additional analyses should be performed to ensure no other unidentified errors occurred.