Kenmore - Town of Tonawanda
Union Free School District
Department of Business and Finance

John Brucato
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Recommendation	Status	Notes
A16-1	Completed	Addressed in Response
BG16-1	Completed	Addressed in Response
BG16-2	Completed	The District has installed GPS tracking units on all vehicles.
BG16-3	Completed	Addressed in Response
BG16-4	Completed	Addressed in Response
BG16-5	In Progress	Codes will be updated as part of the 2017-18 budget development process
BG16-6	Completed	Addressed in Response
BM16-1	In Progress	The solution is long term and will gradually be addressed in the coming budget years.
C16-1	Completed	Addressed in Response
C16-2	In Progress	Documentation of procedures are in process
DP16-1	In Progress	Documentation of procedures are in process
FS16-1	Completed	Procedures added to the Food Service Standard Operating Manual
FS16-2	Completed	Addressed in Response
IT16-1	Completed	Addressed in Response
PA16-1	Completed	Addressed in Response
PP16-1	In Progress	New Assistant Super. for HR to address and implement new procedures

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Recommendation	Status	Notes
PP16-2	Completed	Payroll has been moved under supervision of the Business Office as of July 1, 2016.
PP16-3	In Progress	Assistant Super. for HR to address and implement new procedures
PP16-4	In Progress	New procedures are being developed and documented by the Business Office
PP16-5	Completed	Addressed in Response
PP16-6	In Progress	Assistant Super. for HR to address and implement new procedures
R16-1	Completed	Addressed in Response

KENMORE – TOWN OF TONAWANDA UNION FREE SCHOOL DISTRICT

Risk Assessment,
Findings and Recommendations
For the Year Ending June 30, 2016

KENMORE – TOWN OF TONAWANDA UNION FREE SCHOOL DISTRICT
Risk Assessment,
Findings and Recommendations
For the Year Ending June 30, 2016
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Certified Public Accountants

To the Audit Committee of the Board of Education
of the Kenmore – Town of Tonawanda Union Free School District
Tonawanda, New York:

We are pleased to report on the risk assessment of the Kenmore – Town of Tonawanda Union Free School District (the "District"). The purpose of our engagement is to assist you in the development of a risk assessment of District operations, and provide recommendations to strengthen controls and reduce the identified risks. This report was developed from inquiry and observations and tests of internal controls performed during the 2015-2016 fiscal year.

The District's risks are the risks that an action or event will adversely affect the District's ability to successfully achieve its objectives. The Risk Assessment section of the report analyzes the significant risks and findings that were identified during our engagement.

For purposes of this report, internal control is a process, affected by the Board of Education (the "Board"), department heads and other personnel, designed to provide reasonable assurance regarding the achievement of objectives in the reliability of financial reporting and safeguarding of assets. We have evaluated the District's current internal controls and have provided our risk assessment and a set of recommendations for strengthening controls and reducing identified risks.

As noted, the purpose of our engagement was to assist you in improving the internal controls and reducing the risks that face your District. However, it is ultimately your responsibility to assess the adequacy of your risk management system. 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 thereon.

The accompanying comments and recommendations are intended solely for the information and use of the Audit Committee, the Board of Education, department heads, and others within the District, and should not be used for any other purpose.

We appreciate the opportunity to serve you and thank the individuals in your District for their cooperation. We have already discussed many of these comments and suggestions with various District personnel, and we will be pleased to discuss them in further detail at your convenience. Through our ongoing involvement with you as a client and our knowledge of your processes, we would be pleased to perform any additional studies of these matters, or to assist you in implementing the recommendations.

Drescher & Malecki LLP

June 6, 2016

Risk Assessment

Overview and Scope

The District's risks are the risks that an action or event will adversely affect the District's ability to successfully achieve its objectives. During our engagement, we became aware of various sources of risk that impact the District. We evaluated these risks by using two distinct assessments of impact and probability. A simple rating scale has been developed for this purpose. The rating scale ranges from low to high, using a 3-point scale.

Impact is the effect a single occurrence of that risk will have on an entity:

- A low impact suggests that the risk would not have important implications on the District's financial statements.

- A medium impact suggests that the risk could have implications on the District's financial statements.

- A high impact suggests that the risk would have important implications on the District's financial statements.

Probability is the chance that the risk may occur at an entity:

- A low probability suggests that the risk is unlikely to occur at the District.

- A medium probability suggests that the risk may become an occurrence infrequently at the District.

- A high probability suggests that the risk is likely to occur at the District.

We have assisted the District in developing the risk assessment around significant financial transaction cycles as a means by which the associated risks can be easily understood and managed. The Detailed Findings and Recommendations section of this report presents recommendations with more detailed information regarding criticality and implementation timeliness. This report includes risk assessment procedures performed on the following significant cycles for the year ending June 30, 2016:
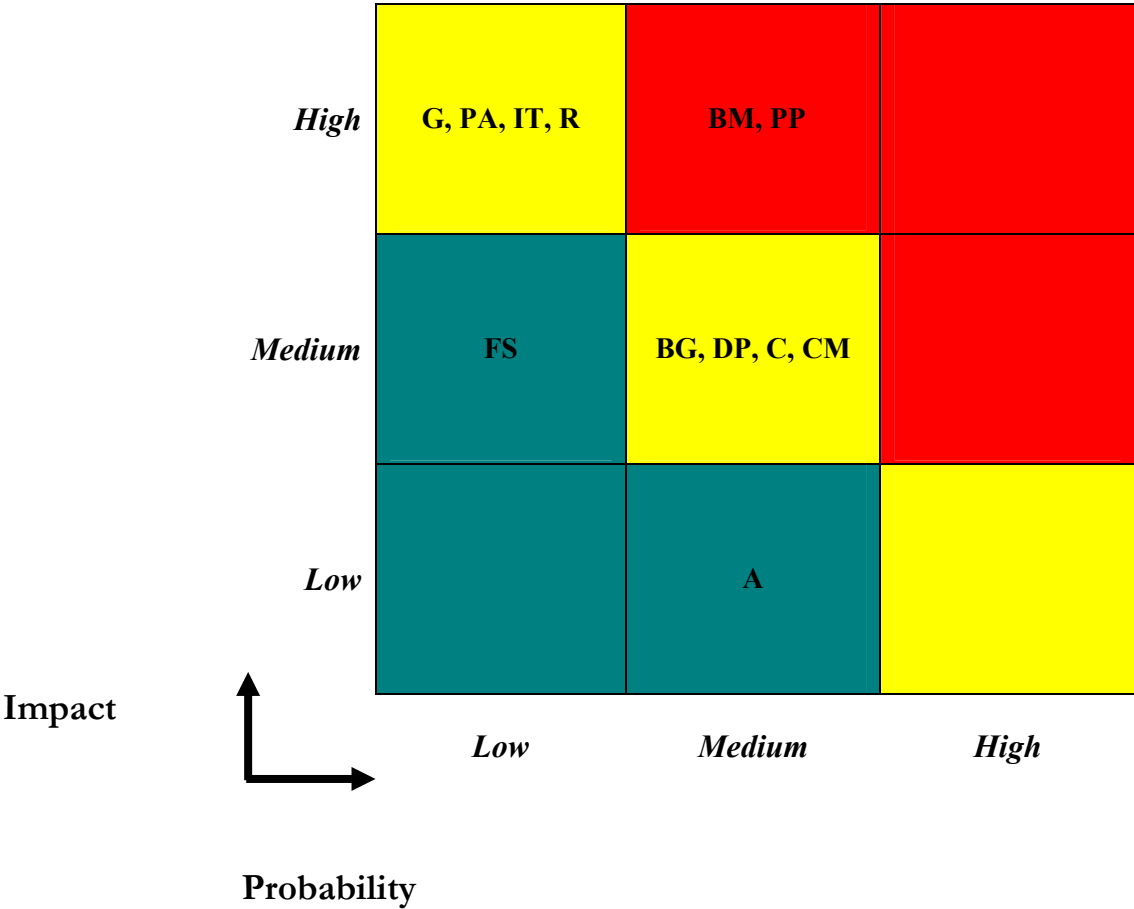
- Athletics (A)
- Buildings and grounds (BG)
- Budget and budget monitoring (BM)
- Capital assets (C)
- Cash management (CM)
- District policies and procedures (DP)
- Food service (FS)
- Grants (G)
- Information technology (IT)
- Purchasing, accounts payable and disbursements (PA)
- Payroll and personnel (PP)*
- Revenue (R)

*As agreed upon with the District, further testing of internal controls was performed on the Payroll and Personnel (PP) cycle during the year ending June 30, 2016.

Risk Management Chart

	Low	**Medium**	**High**
High	G, PA, IT, R	BM, PP	
Medium	FS	BG, DP, C, CM	
Low		A	

Impact

Probability

Key

	High Risk
	Medium Risk
	Low Risk

Summary of Internal Control Recommendations

Overview

Internal control recommendations represent those areas that afford department heads of the District the opportunity to improve financial reporting and internal controls, to better safeguard District assets, and/or to more efficiently or accurately record, summarize, and report financial transactions and information. They also represent those areas that may improve efficiency of operations and accounting functions, potentially resulting in costs savings.

We have provided a criticality rating and an implementation timeline for each internal control recommendation and business opportunity. Criticality ratings considered were urgent, important, and routine. The implementation timelines considered were short-term and long-term, reflecting the effort and time required to implement the applicable recommendation while factoring in the criticality assigned thereto.

As a result of our procedures performed, there were twenty-two total recommendations. The criticality and timeline for the recommendations is as follows:

Internal Control Area	Number of Recommend-ations	Criticality			Timeline	
		Urgent	Important	Routine	Short-Term	Long-Term
Athletics (A)	1	-	1	-	1	-
Budget Monitoring (BM)	1	-	1	-	-	1
Buildings and Grounds (BG)	6	-	3	3	6	-
Capital Assets (C)	2	-	1	1	2	-
Cash Management (CM)	-	-	-	-	-	-
District Policies (DP)	1	-	1	-	-	1
Food Service (FS)	2	-	2	-	2	-
Grants (G)	-	-	-	-	-	-
Information Technology (IT)	1	-	1	-	-	1
Purchasing, Accounts payable and Disbursements (PA)	1	-	1	-	1	-
Payroll and Personnel (PP)	6	-	6	-	5	1
Revenue (R)	1	-	1	-	1	-
Total recommendations	22	-	18	4	18	4

Timeline – Each of the detail findings includes a timeline reference of either "short-term" or "long-term." Short-term refers to findings that we believe can be corrected within one year. Long-term refers to findings that may require changes to organization, systems, or procedures that may require over one year to effectuate the change.

Detailed Findings and Recommendations

Athletics Cycle (A)

Recommendation #A16-1
Criticality: **Important**
Timeline: **Short-term**

Currently, the District does not have a means for ensuring that athletic equipment provided to a student will be returned. The District has a procedure whereby the Head Coach will reach out to the student and inform them of the missing piece of equipment. Subsequent to the first notice, the student receives a formal letter from the Assistant Principal that provides the replacement cost for the missing article of equipment. However, the District does not have additional procedures to ensure recovery of the asset.

We recommend that the District establish an acceptable use and return policy that must be signed by the students' parent(s) to ensure that they can recover costs in the event equipment is not returned. This policy form should be provided to each student athlete at the beginning of each season, and the student athlete should not receive their required equipment until the form has been signed and returned to the Head Coach.

Response: The Athletics Department has updated the 2015-2016 Athletic Code of Conduct Agreement to include an additional clause that states the corrective action that the District will seek should equipment not be returned. The Code of Conduct Agreement must be signed by both the student and the parent, thus holding the parent/guardian accountable for the missing equipment. Should the equipment not be returned, the District is now able to bill the family for the lost or stolen articles.

Buildings and Grounds Cycle (BG)

Recommendation #BG16-1
Criticality: **Important**
Timeline: **Short-term**

Inventories of Buildings and Grounds ("B&G") supplies, such as janitorial supplies, are not counted on a regular, recurring basis.

We recommend that an inventory procedures policy be put in place to ensure that regular, uniform inventory counts are performed. Further, we recommend that the District utilize its current software capability to record such inventory, as it would provide a more accurate inventory count at any given time. Integrating inventory into the District's software would allow for real time reporting and monitoring of inventory. The use of this software to reconcile and determine school ordering needs could assist in the prevention of overspending and theft.

Response: An inventory management system is in now in place. Data is currently being uploaded. Moving forward, the receivables and consumables will be monitored through the Q-Ware inventory management system.

Recommendation #BG16-2
Criticality: **Important**
Timeline: **Short-term**

The District is lacking sufficient controls to ensure B&G vehicles are not misused. We noted that there is not a monitoring procedure in place to verify that the number of miles driven by each vehicle agrees to the trips assigned to the employee driving that vehicle.

We recommend that a log noting the locations driven and the work order/purpose of the trip be completed for each vehicle. This log should be compared to the vehicle mileage and fuel usage regularly in order to prevent unauthorized vehicle usage and fuel costs.

Response: The Director of Buildings and Grounds is working with different vehicle tracking systems to find the best fit for the District's needs. The District should have a system in place in the near future.

Recommendation #BG16-3
Criticality: **Routine**
Timeline: **Short-term**

All service and product requests should be centralized. The B&G office should be contacted when service or goods are required, instead of being ordered by the individual school personnel. We noted that janitors at individual schools call vendors directly when service is required. Circumventing the B&G office increases the risk of using vendors who are not the most affordable for the service required, the District being charged improperly (emergency call versus routine call), and makes the review and proper approval of invoices by the B&G office smore difficult.

We recommend that the purchasing of items applicable to the B&G budget be centralized. The staff within the B&G office should place all outside orders and record the requests in an organized fashion. This will allow the B&G office to perform a proper review of invoices received for services and products, as well as ensure the District is selecting the most affordable vendors. Additionally, this procedure should be noted in writing to ensure compliance. These procedures will aide in preventing fraudulent and excessive invoices from vendors, as well as preventing the use of unapproved vendors.

Response: All staff have been notified and directed to request all purchases through the Buildings and Grounds Department. The Buildings and Grounds Department has also notified the vendors of the service contracts that only calls from the Buildings and Grounds Department will produce a service call.

Recommendation #BG16-4
Criticality: **Routine**
Timeline: **Short-term**

B&G contracts are not reviewed regularly and compared to invoices. We noted an instance for which one of the department's most frequently used vendors was billing for services that were covered under the blanket service contracts the District holds with them. Further, all service calls were billed as emergency in nature, when this was not always the case. We noted that the B&G Department caught this error subsequent to paying some invoices billed by the vendor and the District received numerous credits to rectify the erroneous charges.

We recommend that the B&G Department review vendor contracts regularly for accuracy. A review of these contracts would aid the District in ensuring it is being properly charged for services rendered and may prevent fraudulent or erroneous charges for services not agreed to within the contract, or for services that are covered under blanket service contracts. Further, vendors should be reviewed regularly in order to determine if the needs of the District are met by the services rendered. These procedures will reduce the risk of the District being overcharged for services performed or paying for services not rendered or necessary.

Response: Currently, the Buildings and Grounds Department has implemented and is practicing more scrutiny on invoicing that should be either billed through a service contract or is covered through OGS pricing.

Recommendation #BG16-5
Criticality: **Important**
Timeline: **Short-term**

Account codes should promote a meaningful budget monitoring process. The account codes within the B&G Department lack the detail necessary to facilitate an effective budget monitoring process. Since a high volume of items are included within individual account lines, it is difficult for the department to assess their accurate spending position, as all costs are not evenly incurred throughout the year. If the account codes do not allow for adequate budget monitoring, the District risks overspending funds that may be necessary in future months that have not yet been encumbered.

We recommend that the District assign account codes within the B&G Department with greater categorical detail. Further, annual departmental budgeting procedures should be created to ensure the District is not over-budgeting for additional expenditures for which there is no need.

Response: During our budget building process for 2016-17 and 2017-18 school year, the District will expand budget codes in order to allocate purchases to specific codes instead of drawing from generic codes.

<u>**Recommendation #BG16-6**</u>
Criticality: **Routine**
Timeline: **Short-term**

Adequate controls should be in place in order to reduce the risk of theft of District assets. The District's current scrap material controls are insufficient to reduce such risk. The District has notified the most frequently used scrap yard that employees are to receive a ticket stating the amount received, which the B&G employee must return to the District with the funds received. However, this control does not exist for all other scrap yards.

We recommend a system be implemented that reasonably measures the scrap material picked up from District locations and sold to local scrap yards in order to verify that all revenue received from scrap being picked up by the B&G Department is remitted to the District. Further, we recommend a control be put in place that does not rely solely on the external vendor.

Response: Currently, the District has a system setup at a local scrap metal salvage yard to turn over a weigh receipt to the employee that delivers the scrap. The receipt gets turned in and a check is sent from the scrap yard to the District. One of the scrap yards utilized by the District implements this procedure; however, the District will be collaborating with other local scrap yards to introduce such a system.

Budget and Budget Monitoring (BM)

Recommendation #BM16-1
Criticality: **Important**
Timeline: **Long-term**

Per the District's audited financial statements, the General Fund fund balance has deteriorated from $50,210,425 as of June 30, 2010 to $25,694,273 as of June 30, 2015. Over this period, the General Fund has utilized fund balance in each fiscal year, with a highest level of $8,224,235 used during the year ended June 30, 2015. In addition, the District 2015-2016 budget estimates the use of $7,475,000 in fund balance to balance the General Fund budget.

Budgeting practices should strive to support the District's current expenditures through the use of current revenue without the use of fund balance on a recurring basis. We recommend that the District review its long-term planning and budgeting processes to ensure future operations are sustainable and to avoid further deterioration of the General Fund fund balance.

Response: Fund balance has strategically been spent down to comply with the New York State Comptroller's Audit recommendations. The District has recognized that it no longer can sustain the trend of appropriating reserves and fund balance to balance its annual budget. Long term planning is shifting to consider less to no dependence on reserves and fund balance in order to maintain fiscally sustainable budgets in the future.

Capital Assets Cycle (C)

Recommendation #C16-1
Criticality: **Routine**
Timeline: **Short-term**

Physical inspection and tagging of fixed assets is not performed by the individual responsible for recording the fixed assets. Without physical inspection, the District is at risk of asset misappropriation. Further, the District may be reporting depreciable fixed assets containing a value on its books, but may not actually be in possession of the asset due to its disposal. While disposals should be communicated to the individual responsible for recording and maintaining fixed assets, without physical inspection, the District cannot confirm that non-communicated disposals did not occur.

We recommend that a periodic inspection of physical inventory be performed to ensure that the value recorded on the financial statements is representative of the true value of capital assets and their corresponding accumulated depreciation. As an inventory of current fixed assets was completed during the summer/fall of 2015, the District should use that information to appropriately tag the physical assets in their possession and remove the items that have been disposed of. Further, the District should utilize the information provided as a starting point and continue to physically tag purchased assets and document each asset's location going forward.

Response: The majority cost of fixed assets that are purchased by the District are autos and computer equipment. The Technology Department tags and inventories all computer purchases. All auto purchases are recorded on the system by its unique Vehicle Identification Number (VIN).   These items are serviced on a regular basis. Items that are not present for the annual or more frequent servicing are followed up on in a timely manner.

Recommendation #C16-2
Criticality:　　**Important**
Timeline:　　**Short-term**

The individual responsible for recording fixed assets is not always notified regarding a fixed asset acquisition. Rather, this individual will review the P.O.'s, the Board dockets, and the .200 code expenditure ledger to ensure that all purchases that meet both the insurance and capitalization thresholds are properly recorded. While this alternate procedure helps to locate the fixed assets, should a new employee enter this position, he/she may not know what to look for, risking that a fixed asset is not capitalized but rather is expensed at acquisition.

We recommend that the District implement a procedure denoting how to communicate the purchase of assets that exceed the capitalization threshold to the recording individual. Further, this policy/form should state the locations of the purchase so that the District can properly track the asset. It is important to note that the District has a procedure in place to ensure proper communication and support for asset deletions. As such, a similar policy should be established, communicated, and followed for the purchase of new fixed assets.

Response: In addition to the Chief Accountant reviewing the .200 codes for those assets which meet the fixed asset threshold, the Purchasing Department also monitors supplies and equipment codes on proposed Purchase Orders to ensure that items are properly coded. If any questions arise, they are discussed with the Chief Accountant for advice on coding.

The District will seek to document the procedures used to determine if an item is a fixed asset, to ensure that the proper procedures would be followed in her absence.

Cash Management Cycle (CM)

No recommendations noted relating to the Cash Management cycle.

District Policies and Procedures Cycle (DP)

<u>*Recommendation #DP16-1*</u>
Criticality: Important
Timeline: Long-term

Many of the Board of Education's policies and procedures are general in nature. While the Board has formally documented policies for various cycles, these policies do not detail all areas of the cycles, leaving them open to interpretation. Further, the District has many "spoken" policies and procedures that are relayed from supervisor to employee based on past practice and experience. However, these policies are not formally documented and, therefore, may no longer be practiced should the experienced employee retire.

We recommend that the District review its formal policies and procedures in place and evaluate the need to add greater level of detail. Further, the District should evaluate processes or departments that may be vulnerable to turnover to ensure that relevant procedures are adequately documented.

Response: The District recognizes the importance in having detailed and well documented policies and procedures. While continuing to review and assess appropriate levels of detail on existing policies and procedures, the District will pursue documentation on any policies and procedures that are verbal in nature. Each department will start and continue the process of relevant documentation.

Food Service Cycle (FS)

<u>*Recommendation #FS16-1*</u>
Criticality: Important
Timeline: Short-term

While the District has procedures in place for the various functions of the Food Service Department, the District lacks a formal policy of such procedures. Specific areas of importance include the Food Service Director's procedures and proper inventory procedures. While the Food Service Director currently performs a range of reviews, and maintains controls over the Food Service Department, if this position were to be vacated there is a risk that the controls and reviews necessary would not be easily transitioned. Further, the warehouse and kitchens perform inventories, but the procedures for these are undocumented.

We recommend that these procedures be outlined in writing to promote uniformity between schools.

Response: The Director of Food Services will develop Standard Operating Procedures for performing inventory in each school kitchen and at the central warehouse. This SOP will be added to the Food Service Standard Operating Manual.

<u>*Recommendation #FS16-2*</u>
Criticality: **Important**
Timeline: **Short-term**

While inventory counts are performed by each cafeteria and warehouse on a monthly basis, physical spot checks of monthly inventory reported by each cafeteria are not performed. Spot checks enhance the accuracy of inventory counts performed by ensuring that what is on hand matches what is recorded. While the Food Service Department assesses food orders by each school for general reasonableness, there is not a reconciliation performed to document that beginning inventory, inventory ordered, and lunch sales, match the ending inventory balance.

We recommend a monthly reconciliation of inventory in order to prevent over-serving or the theft of assets. A reconciliation of inventory is also recommended for the warehouse, which stores the food goods prior to their delivery to schools.

Response: The Director of Food Service's knowledge of each kitchen, the menus and the number of meals served in each building allow her to control the number of products in each kitchen. She physically checks a site if the inventory sheets come in with unusually high or low numbers for products that she knows should or should not be at that site. When the Food Service Director or the Assistant Food Service Director are in the kitchens (which is weekly), they do observe the storerooms, coolers and freezers to ensure none are stock piling foods unnecessarily. Due to staffing and time limitations, physical reconciliation of inventory at each site each month presents challenges. If there is a reasonable doubt or concern that product is being mishandled, it would certainly receive prompt action to rectify the situation.

Grants Cycle (G)

No recommendations noted relating to the Grants cycle.

Information Technology Cycle (IT)

<u>*Recommendation #IT16-1*</u>
Criticality: **Important**
Timeline: **Long-term**

The District maintains its server in a locked room that is temperature controlled, with limited employee access. The District also performs a nightly server back-up. Although the District maintains these controls, the server room does not contain a fire suppression system, therefore putting the District at risk of losing data in the event a fire occurs. It is important to note that this only applies to items that are stored solely on the District's server. Any items maintained on the BOCES server would be preserved and backed-up offsite.

Due to the risk of potentially losing work, we recommend that the District perform a cost benefit analysis to determine whether purchasing a proper fire suppression system is feasible. If so, it is recommended that the District acquire and install such a system to ensure that work is not lost.

Response: Due to the increased reliance on technology, the District recognizes the importance of maintaining a server room with the greatest amount of uptime while protecting user data. However, because of the extreme costs associated with fire suppression systems and due to the fact that the administrative building in which the server room is located would not be eligible for building aid from New York State, the District struggles to allocate the appropriate funding to install such a system. In order to better protect user data, the District is slated to install a redundant server room that is replicated in another building as part of an approved capital project. The District will also continue to explore the option of fire suppression systems.

Purchasing, Accounts Payable, and Disbursements Cycle (PA)

Recommendation #PA16-1
Criticality: **Important**
Timeline: **Short-term**

The District's Internal Auditor does not have access to the District's accounting software for monitoring purposes; rather, reports are printed by other staff and given to the Internal Auditor for review. Access to view the information within the accounting software would facilitate a more complete review of the accounting records. Without access to the accounting software, the District risks incomplete reports being provided and approved.

We recommend the Internal Auditor be granted read only access to the District's accounting software to facilitate a more effective review.

Response: The District has added the Internal Claims Auditor to our WinCap software for viewing only.

Payroll and Personnel Cycle (PP)

Recommendation #PP16-1
Criticality: **Important**
Timeline: **Short-term**

The District utilizes a new hire form that is completed and provided to the Tech Services Department to have appropriate access rights established and granted to the new user. Conversely, terminations are frequently not communicated, or are not communicated in a timely fashion to the Tech Services department. The District also has a "Tech Center Account End/Change Form" that is often not used when an employee separates with the District. If an employee has been terminated at the District's discretion, then the termination is communicated in a prompt fashion. However, the Tech Services department frequently will not receive a notice if the employee separates with the District as the result of a retirement. Through discussion with those responsible for removing user access rights, it was noted that for these employees, they are typically made aware of the employee's separation by reading Board dockets, or by attending the retirement party, which often occur after the access should have been removed.

We recommend that all separations be communicated promptly, therefore ensuring that a terminated or retired employee no longer has access to the District's information. Further, the End/Change user form should be completed and provided to Tech Services in a timely fashion. Completion of the form should be added to an HR separation procedures checklist to ensure timely communication.

Response: Use of a form will not improve the process. We already have a process in place called the Board Docket and should be utilized by the appropriate individual in Tech Services. In regard to last minute terminations, HR will email the appropriate person at the appropriate time as soon after the termination as HR determines it appropriate. Some of these terminations are sensitive in nature and require a certain amount of discretion and actually contain agreements about such notifications outside the HR department.

Recommendation #PP16-2
Criticality: **Important**
Timeline: **Short-term**

The Payroll Benefits Administrator has access rights to both create a user profile (update the employee's personnel file), establish the pay schedule for a particular employee, and submit, review and sign off on payroll. As such, adequate segregation of duties is not maintained since the employee could create a fictitious employee, approve of them, establish a pay scale, and sign-off on the pay register granting the employee payment. The District has compensating controls in place through the use of various reviews and approvals with regards to the payroll process.

We recommend that one employee not be provided with both HR and Payroll access rights. Rather, these duties should be shared among two or more employees, to ensure that one individual cannot create, approve, and pay a fictitious employee.

Response: The District software does not have the capability to turn off both access rights to an employee with the job title of Payroll Benefits Administrator due to the fact that the administrator is responsible for updating pay tables and testing these rates on dummy employees to ensure that all information is pulling correctly. In order to correct the lack of segregation of duties, the District is in the process of segregating duties of payroll and HR by moving payroll functions to the Business Office.

Recommendation #PP16-3
Criticality: **Important**
Timeline: **Long-term**

The District does not have a policy in place that documents when overtime is acceptable and/or allowable, who must approve of the overtime and who must review overtime for reasonableness. Currently, employees will submit their timesheets with overtime worked. Overtime is then reviewed for reasonableness during the biweekly review of payroll. The payroll clerks are made aware of when overtime is to be expected. However, while reviews are performed, the District is still responsible to pay the employee for the hours worked.

We recommend that the District establish a policy to formally document proper overtime procedures, including what approval should be obtained prior to working overtime or what circumstances constitute as an "emergency", thus allowing for overtime without authorization.

Response: The District will investigate and implement proper procedures in relation to overtime approvals.

Recommendation #PP16-4
Criticality: **Important**
Timeline: **Short-term**

The District does not have a policy in place documenting appropriate review of paychecks printed subsequent to the check run process. The biweekly paychecks are prepared by the payroll department and provided to the designated IT specialist, who will print the paychecks from the provided file. However, once printed, these checks are not reviewed or spot-checked for accuracy.

We recommend that the District establish a policy that documents the formal review process that should be performed once the checks have been printed. The policy should document who is responsible for reviewing paychecks once they have been printed and what an appropriate review entails.

Response: Items that should be looked over on the printed paystubs would be large gross pay amounts, negative deductions, additional pay items not being excessive, watching for short work periods (i.e.; winter spring breaks) and that part-time employees are receiving pay for the appropriate amount of hours, and other trends that a Payroll/Benefits Administrator would be familiar with. A policy will be investigated and reviewed.

<u>*Recommendation #PP16-5*</u>
Criticality: **Important**
Timeline: **Short-term**

Currently, the Payroll Department does not notify the IT Department regarding the number of checks that will be run during the pay run. A proper review cannot be performed without notifying the employee who performs the check run regarding the number of checks that are to be generated. The lack of information may cause additional checks to be generated, thus creating an opportunity for asset misappropriation.

We recommend that the District establish a policy that requires the Payroll Department to notify the IT Department regarding the number of checks that will be generated during the current pay period.

Response: The payroll clerk will now provide the IT department employee with the summary page of the Payroll Register showing the check and direct deposit pay stub count. The folding machine used to stuff paychecks into security envelopes has the ability to count number of envelopes stuffed. Payroll clerks will initial Payroll Register and provide to IT. Once IT has completed the pay stub preparation, they will verify the count on the envelope stuffing machine and then initial the Payroll register. IT employee will make a copy of the Summary Page and keep for its records and will forward the original to Payroll clerk for filing with that payroll worksheet file.

<u>*Recommendation #PP16-6*</u>
Criticality: **Important**
Timeline: **Short-term**

Currently, the Human Resources ("HR") department does not maintain a current list of new hires and employees who separated employment in the current year. However, through our communications with the HR and IT departments, we were able to determine the population of employees who were hired during the year, as well as, employees who separated employment from the District. As such, we sample tested new hires and separated employees based on the information provided.

Based on our sample testing of 10 new hires, we noted the following:

- There were 5 instances where fingerprint clearance certificates were not maintained in the personnel files. Further, we noted 1 instance where an employee's clearance was not verified electronically until after their hire date.

- There were 3 instances where new hires with a Master's degree did not have official transcripts in their personnel file. Only unofficial transcripts were in their file as part of their online applications. Per the PTA union agreement, official transcripts are required to be submitted to the District.

- There were 7 instances of employees whose date of Board approval was subsequent to their hire date in FileBound and the employee's Board Letter. New hires should be approved by the Board of Education prior to the employee's hire/start date.

Based on our sample testing of 10 separations, we noted the following:

- There is no formal review of the payout calculation and the amount to be paid before separation payments are disbursed. The Payroll Department should develop a review process where a supervisor or administrator checks the calculation done by the account clerk for accuracy and approval.

- There was 1 instance where an employee was not removed from payroll in a timely fashion. The employee was paid in the period subsequent to their retirement and the District had to recover the funds from this individual.

We recommend that the District obtain all of the required documentation for employees. Implementing a review control process to ensure all employee files are complete would reduce the likelihood of missing documentation. The Payroll and HR Departments should review contracts, agreements, and applicable regulations to ensure the appropriate documents are being obtained from employees and maintained in the District's personnel files.

We recommend the HR department maintain a current list of new hires, terminations, resignations, and position changes. This listing may aid in a timely update of user access rights by the Information Technology Department.

Response: While the HR department does not maintain a list of new employees such information is easily attainable from the WinCap system in the form of a report.

Fingerprint Clearances: In many cases the HR clerical who handles fingerprint clearances makes a notation in Wincap after confirming in the NYS Teach system that the individual has passed their clearance. If the recommendation is that all clearances need to be printed and filed HR will do so.

Official Transcripts: HR will re-train staff to accept only official copies of transcripts per the KTA CBA.

Board Appointments: This year has been particularly difficult with the teacher substitute shortage and there have been some cases where staff was approved before the BOE action date. It is understood that this should not occur however in some cases this year where student needs created a critical situation it has occurred with the approval of the ASHR.

Separation and Retirement Calculations: As of July 1, 2016 the payroll function of HR will move under the supervision of the Business Office. It is recommended that the supervisor formally sign off on these calculations that are entered and maintained in the WinCap system.

Employee still on payroll: Without the details on this issue it is difficult to respond. The general procedure after the BOE action is for the payroll department to immediately make changes in WinCap to formalize the action.

HR and IT have begun discussions to determine the most efficient way to coordinate lists of new hires, terminations, resignations and position changes.

Revenue Cycle (R)

Recommendation #R16-1
Criticality: **Important**
Timeline: **Short-term**

All receipts within the District should be properly recorded as revenue. Donations received are not recorded as revenue, but rather as a reduction of expenditure to allow for the school to purchase more within the account. Without the proper recording of revenue, the District's risk of the financial statements being misstated increases. Further, not recording such revenue decreases the District's ability to track and monitor donations, and may make these funds susceptible to inadequate review and misappropriation.

We recommend the District record donations as revenue and increase the appropriate expenditure budgetary control account if it will allow for additional purchases.

Response: The amounts of the donations are small and do not cause any material misstatement on the financial statements. The District makes an effort to differentiate between a reimbursement of an expense and revenue from donation. Entering the donation in the budget code allows the schools access to the donation quickly, with a clear path.