

Eastern Suffolk BOCES

Internal Audit Report on Detailed Testing – Programs to Human Resources to Payroll Processes

August 21, 2024



Internal Audit Report on Detailed Testing

Board of Education and Audit Committee
Eastern Suffolk BOCES
Patchogue, New York

We have prepared this report as the result of our detailed testing as further described, which were agreed upon by the Board of Cooperative Educational Services First Supervisory District of Suffolk County (ESBOCES), on the programs to human resources to payroll processes during the period of January 1, 2023 through March 31, 2024.

ESBOCES' management is responsible for administering this area.

This engagement is in accordance with auditing standards generally accepted in the United States of America and the applicable standards contained in *Government Auditing Standards* issued by the Comptroller General of the United States, or the *International Standards for the Professional Practice of Internal Audit* issued by the Institute for Internal Auditors. The sufficiency of the procedures is solely the responsibility of ESBOCES. Consequently, we make no representation regarding the sufficiency of the procedures either for the purpose for which this report has been requested or for any other purpose.

Our procedures and findings are described in the following pages.

We were not engaged to and did not conduct an examination or review, the objective of which would be the expression of an opinion on ESBOCES' programs to human resources to payroll processes. Accordingly, we do not express such an opinion or conclusion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

We would like to express our appreciation for the cooperation and assistance that we received from ESBOCES' administration and other employees during our engagement.

This report is intended solely for the use and information of the Board of Education (Board), Audit Committee, and the management of ESBOCES, and is not intended to be and should not be used by anyone other than these specified parties.

Cullen & Danowski, LLP
August 21, 2024

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Introduction:

This report is organized as follows, categorized by function (i.e., programs to human resources to payroll processes and assist ESBOCES), and there are four sections under each function consisting of:

- Background information
- Procedures performed during our detailed testwork
- Findings as a result of our review
- Recommendations to enhance internal controls or improve operational efficiency.

Certain recommendations may require a reassignment of personnel duties within ESBOCES and/or a monetary investment. However, any control enhancements should be implemented following a thorough cost-benefit analysis.

Corrective Action Plan:

Commissioner of Education Regulation §170.12(e)(4) requires that a corrective action plan (CAP), approved by the Board of Education, must be filed within 90 days of issuance with the New York State Education Department (NYSED).

ESBOCES should submit the CAP along with the respective Internal Audit Report via the NYSED Portal.

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PROGRAMS TO HUMAN RESOURCES TO PAYROLL PROCESSES

Background:

We were engaged to perform a review of the ESBOCES procedures related to managing, communicating, and documenting employee activities (e.g., new hires, separations, transfers, etc.) between the programs, Human Resources (HR) Department, and Payroll Department. These processes were selected as a result of our previous internal audit and the issued Risk Assessment Update Report dated January 24, 2024, which noted that there were payroll check runs outside of the ESBOCES' agreed-upon payroll schedule. In addition, there were a number of overpayments processed to staff on leave or separated from ESBOCES and many instances where the amounts paid have not yet been recouped at that time.

ESBOCES has a sizable number of employees with 2,175 full-time personnel and 936 part-time staff at the time of this report. The management of staff activities is a collaborative effort between the programs, HR Department, and Payroll Department. The programs involvement with staff activities includes interviewing prospective new hires, documenting the results of such interviews, monitoring staff attendance, and collaborating with HR personnel on such activities. The HR Department is responsible for ensuring compliance related to employee activities that includes following labor laws, ESBOCES protocols, and certification requirements as applicable. In addition, the HR Department works collaboratively with the Payroll Department regarding the timing and accuracy of payments to employees, as well as processing any necessary adjustments to the payroll amounts.

Good business practice requires that ESBOCES establish proper segregation of duties and adequate controls related to the employee activities (e.g., new hires, separations, transfers, etc.). The programs, HR Department, and Payroll Department need to communicate important information about the administration of employees. These communications should ensure the completeness and accuracy of payroll related transactions (e.g., salaries, claims forms, stipends, separation payouts, etc.), changes to salaries, activating or inactivating payroll payments and the retention of proper documentation supporting the activities, to name a few. As in most BOCES and school districts, payroll is one of the largest expenditures at ESBOCES.

The HR Department's activities include responsibilities for all certified employees and all non-certified employees. We note that there has been considerable staff turnover in the HR Department over the past couple of years, which results in challenges with establishing continuity and experience of the staff in their respective roles. The HR Department consists of four administrators: Assistant Superintendent, Director, School Personnel Officer, and Assistant to the Assistant Superintendent. The HR Department also includes 19 full-time clerical positions and 2 part-time positions with designated duties and provides support for the administrators.

ESBOCES utilizes the WinCap system (WinCap) that has an HR module to store employee information and a payroll module to facilitate the payroll process. This is a powerful, sophisticated product that has been tailored to meet the requirements of New York State for reporting purposes. The HR and payroll modules are fully integrated with each other and are also integrated into the financial reporting module.

Our procedures included interviews with the programs, HR Department, and Payroll Department personnel. We found that the employees we interviewed demonstrated a positive attitude towards improving procedures and are knowledgeable about the requirements related to their responsibilities.

We found some opportunities to further improve operations related to employee activities as a result of our engagement. These items are described further in the findings and recommendations sections below. We recommend that ESBOCES consider these recommendations to further strengthen internal controls and/or enhance operational efficiencies related to employee activities.

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Procedures:

Our procedures related to the programs to HR to payroll processes were as follows:

- Review Board policies and ESBOCES procedures related to managing, communicating, and documenting employee changes (e.g., new hires, separations, transfers, etc.) between the programs, HR Department, and Payroll Department.
- Interview staff within the programs, HR Department, and Payroll Department regarding policies, procedures, and systems in effect related to managing, communicating, and documenting employee changes (e.g., new hires, separations, transfers, etc.).
- Review the current protocols related to managing, communicating, and documenting employee changes (e.g., new hires, separations, transfers, etc.) and identify the strengths, any weaknesses, and key control attributes for testing.
- Discuss the circumstances regarding the payroll check runs outside of the ESBOCES' agreed-upon payroll schedule and the payroll overpayments processed to staff on leave or separated from ESBOCES noted during our previous risk assessment engagement. Work with ESBOCES staff to determine the needed improvements to prevent these instances from occurring.
- Provide an update regarding the status of the payroll overpayments processed to staff on leave or separated from ESBOCES that have occurred during the 2022-23 and 2023-24 years (i.e., note if the overpayment has been or is being recouped by ESBOCES or if the overpayment is still outstanding).
- Review administrative procedures of the HR staff to ensure that the processing of employee changes is authorized, performed, and monitored at an appropriate level.
- Review the HR and payroll activities for the period under review as follows:
 - For new hires – select a sample of 25 new hires to ensure proper documentation is on file (e.g., certifications, civil service forms, Board resolution, etc.); communications between the programs, HR Department, and Payroll Department were timely; employee was activated in the WinCap system timely; and salary amount is correct and in compliance with specifications in the respective bargaining unit contract or employment agreement.
 - For separations - select a sample of 25 separations to ensure proper documentation is on file (i.e., retirement/resignation letter from employee; Board resolution); communications between the programs, HR Department, and Payroll Department were timely; employee was inactivated in the WinCap system timely; and final payments, if applicable, are correct (i.e., retirement incentives; accumulated unused time) and compliance with specifications in the respective bargaining unit contract or employment agreement.
 - For employees on leave of absence – select a sample of 15 employees. Select 10 leaves of absence during the period and review HR files and supporting documentation for completeness and accuracy. Review calculations regarding stop and return dates and related payroll payments and review for proper authorization and processed timely.

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Findings:

Review of Board policies and ESBOCES procedures, interviews with staff, and review of the current protocols related to managing, communicating, and documenting employee changes found:

- There are numerous Board policies within the Section 3000 – Administration and Section 5000 – Personnel series that relate to administration and various protocols related to employees.
- ESBOCES has numerous standard forms related to employee activities including *New Hire Supporting Documentation Checklist and Background Summary*, *New Hire Employees Benefits Sign-Off Sheet*, *Notice of Voluntary Resignation form (8004F.36)*, and others regarding employee activities.
- There are standard and consistent practices related to managing, communicating, and documenting employee changes (e.g., new hires, separations, transfers, etc.). However, we found that procedures require further enhancement to mitigate the risk of processing incorrect or untimely payroll payments and to ensure timely notifications of personnel actions between the programs, HR Department, and Payroll Department due to the continued instances of overpayments and dock pays. Further review noted that most of these instances relate to the paraprofessional employees (i.e., teaching assistants and aides).
- There is a time lag of 3 days related to the payroll payments to the at-risk staff (e.g., 10-month paras, hourly employees, etc.). An increase in the number of days regarding this lag would assist ESBOCES by providing more time to identify potential scenarios where employees may have used more benefit time than they have accrued as of that payroll period. This would help with reducing potential overpayments.
- The HR Department uses the SchoolFront system to automate the recruitment and onboarding functions and to store digital employee records. However, we found that the utilization of this system could be expanded to include additional onboarding documents that are manually prepared hard copies (e.g., Form I9 documents, Reference Checks, Retirement System Enrollment Forms, Transcripts, TEACH Certifications, Oath of Allegiance Forms, etc.).
- ESBOCES' practice related to calculating payroll payments for paraprofessional employees (i.e., aides) is to use the Swaim method when such staff does not work for a full month. The Swaim method is more complex and time consuming compared to the straight-line method. Although the NYSED requires the use of the Swaim method for teachers and teaching assistants, it may not be required for paraprofessionals.
- The staff attendance procedures include designated staff at the programs and departments who are responsible for monitoring the Frontline Absence Management system activity, which is used by most staff to enter their absences; comparing these absences with the daily sign-in/out sheets; and entering employee absences into WinCap.
- The HR Department communicates any required payroll changes to the Payroll Department related to overpayments or dock pays, but there is a lack of a standard payroll dock sheet to formally document and communicate the payroll change activities.

Discussions regarding the payroll check runs outside of the ESBOCES' agreed-upon payroll schedule, the payroll overpayments processed to staff, and establishing standard and consistent practices related to managing, communicating, and documenting the employee changes (e.g., new hires, separations, transfers, etc.) to mitigate the risk of processing incorrect or untimely payroll noted:

- There is still a need for improvement because we noted that there continue to be instances where employees were overpaid when separated from ESBOCES, as well as, instances requiring ESBOCES to dock the payroll of employees mainly due to the staff having used up their benefit time and incurring

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absences that should've resulted in a reduction of that payroll amount as noted during our fieldwork in May and June 2024.

Review of the status of the payroll overpayments processed to staff on leave or separated from ESBOCES that had occurred during the 2022-23 and 2023-24 years found:

- The following chart provides the status of the payroll overpayments as of July 30, 2024:

Year	Total Overpayments		Collected		Outstanding	
	Number	Amount	Number	Amount	Number	Amount
2022-23	43	\$25,272	29	\$12,561	14	\$12,711
2023-24	48	\$53,620	27	\$24,039	21	\$29,581
<i>Total</i>	<i>91</i>	<i>\$78,892</i>	<i>56</i>	<i>\$36,600</i>	<i>35</i>	<i>\$42,293</i>

- There is a need for improvement related to the collection efforts to recover overpayments from separated employees, since we noted that some of these balances have been outstanding for a period of time. In addition, the current efforts include the HR Department performing periodic phone calls and mailing certified letters, but ESBOCES has not engaged their legal counsel or collection agencies to facilitate this process. We also noted that the management of these activities could be enhanced by utilizing the WinCap Accounts Receivable module related to recording, invoicing, receiving, and monitoring the overpayments more effectively and efficiently.

Review of the administrative procedures of the HR staff to ensure that the processing of employee changes is authorized, performed, and monitored at an appropriate level noted:

- ESBOCES has established processes and standard forms related to administrative procedures to ensure that employee changes are authorized, performed, and monitored appropriately. However, there are opportunities for improvement to mitigate the risk of processing incorrect or untimely payroll payments and to ensure timely notifications of personnel actions as noted above.
- There have been recent changes in the HR Department related to staff activities that include:
 - The revised procedure to ensure that all required documentation per the *New Hire Supporting Documentation Checklist and Background Summary* form has been obtained and requiring the School Personnel Officer or Assistant to the Assistant Superintendent to sign-off on this form prior to sending the *Appointment Notice* to the respective programs.
 - The utilization of SchoolFront to electronically process the *Letters of Assurance* form, which is prepared by the programs to inform the HR Department about the status of the at-risk staff (e.g., 10-month paras, hourly employees, etc.) returning to work for the upcoming school year, to replace the current process using manually prepared hard copy forms.
 - The inclusion of the benefits associates within the HR Department during the on-boarding session of new hires rather than the benefits associates meeting with the new employees afterwards.
 - The hiring and assignment of duties related to substitute services and the five full-time substitute service coordinators, who manage over 400 substitutes to provide support for the divisions, has been returned to the HR Department from the Administrative Services Department.
 - The revised *Notice of Voluntary Resignation* form (8004F.36) to include more information.

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Selection of 25 new hires during the period and testing compliance with key internal controls found:

- There were 23 instances where an employee's hire date listed in the WinCap system was prior to the Board appointment date. In 17 of these instances, the employee's first paycheck was prior to the Board appointment date. However, best practices ensure that the hiring of new employees and commencing their payroll should take effect after Board approval. Further review noted that ESBOCES does not have a Board Policy related to this matter, which could include language that authorizes payroll of certain employees before Board approval. We have found that the Board's annual organizational meeting includes the following agenda item: *Recommended Authorization to Employ Non-Probationary, Temporary Personnel: the Board of Cooperative Educational Services, First Supervisory District of Suffolk County, hereby authorizes the District Superintendent or Chief Operating Officer to employ non-probationary, temporary personnel who work less than 60 percent of a full-time position, at an hourly rate or per diem rate established by the Board, as well as interim appointments for full-time personnel whose beginning date falls prior to a Board Meeting during the 2023-24 school year. All other personnel shall be recommended by the District Superintendent or Chief Operating Officer for Board approval.*" We find that the language "interim appointments for full-time personnel" needs further clarification to define these specific types of new hires.
- There were 19 instances out of the selected 25 new hires where the employee's HR file did not include all the required documents.
 - There were 5 instances where a new hire's personnel file did not include an Emergency Phone Notification System form. *(NOTE: this item is now included in the revised New Hire Supporting Documentation Checklist and Background Summary form)*
 - There were 7 instances where a new hire's personnel file did not include an Electronic Communication, Handbook, and ID Agreement form. *(NOTE: this item is now included in the revised New Hire Supporting Documentation Checklist and Background Summary form)*
 - There was 1 instance where a new hire's personnel file did not include an Election of Number of Paychecks form. *(NOTE: this item is now included in the revised New Hire Supporting Documentation Checklist and Background Summary form)*
 - There were 8 instances where a new hire's personnel file did not include a Reference Check form.
 - There were 2 instances where a new hire's personnel file did not include a copy of their certifications from the NYS TEACH website or copies of their transcripts/diplomas.
 - There were 4 instances where a new hire's personnel file did not include a Retirement System Application form.
 - There were 2 instances where a new hire's personnel file did not include an Oath of Allegiance form.
 - There were 2 instances where a new hire's personnel file did not include a New Employee Benefits Sign Off form.
- There were 2 instances where payroll-related documents (i.e., W4, NY2104, Direct Deposit, etc.) were stamped as received by the Payroll Department after the employees first payroll was processed.

Selection of 25 separations during the period and testing compliance with key internal controls noted:

- There were no exceptions noted during the review of the selected 25 separations, since there was proper documentation on file; communications were timely; employee was inactivated in the WinCap system timely; and final payments, if applicable, were correct; and complied with specifications in the respective bargaining unit contract or employment agreement.

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Selection of 15 leaves of absence during the period and review of HR files and supporting documentation noted:

- The HR files of the 15 selected leaves of absence included accurate records and, if applicable, the calculations regarding stop and return dates and related payroll payments were properly authorized.

Recommendations:

We recommend that ESBOCES consider implementing the following to further improve internal controls and operational efficiencies related to programs to HR to payroll processes:

1. Strengthen processes to mitigate the risk of overpayments to employees or the docking of pay from employees as follows:
 - a) Continue with setting up the first payroll using live checks for the at-risk staff (e.g., 10-month paras, hourly employees, etc.) and then move to direct deposit for those employees who have returned to work. Another consideration is to start the payroll for the at-risk staff on the 2nd pay cycle of the school year. These procedures would significantly prevent potential overpayments to employees.
 - b) Enhance procedures between the programs and HR department to monitor the attendance of employees to prevent these potential scenarios, particularly the at-risk staff (e.g., 10-month paras, hourly employees, etc.).
 - c) Increase the time lag related to payroll payments for the at-risk employees (i.e., 10-month paras, hourly employees, etc.). We understand that ESBOCES has been discussing this change with the respective bargaining unit to increase the number of days from 3 to 10.
 - d) Ensure compliance with the procedures to verify that 10-month employees have returned to work at ESBOCES, especially the at-risk staff (i.e., 10-month paras, hourly employees, etc.).
 - e) Expand communications between the programs, HR, and payroll that includes scheduling, periodic meetings to work collaboratively on initiatives related to staff activities.
 - f) Investigate the expansion of the Frontline Absence Management system to all employees resulting in consistency and standardization related to staff attendance procedures.
2. Improve procedures related to obtaining Board approvals of new hires prior to the employee starting work at ESBOCES. We also recommend that the employees' payroll should not commence until after the Board's approval, which is a best and preferred business practice. The new hire process should be enhanced to reduce the occurrences of new employees starting their employment at ESBOCES prior to the Board approval. In addition, ESBOCES should expand the language in the Board's annual organizational meeting agenda item *Authorization to Employ Non-Probationary, Temporary Personnel* by including further clarification to define these specific types of new hires related to "interim appointments for full-time personnel". Another option is the creation of a Board Policy to address this matter that would include language that might authorize the hiring of certain new hires before Board approval and possibly authorizing the commencement of payroll for specific types of employees before Board approval (e.g., instructional staff) and other types of employees might be hired prior to Board approval where their payroll commences after the Board's approval (e.g., non-instructional).
3. Establish procedures to ensure compliance with verifying that each employee's HR file contains all the required documents and that the documents are complete. In addition, establish processes to ensure the documents are submitted to the appropriate departments in a timely manner. Based on our findings related to the missing documents in the employees' files noted above, we found that the HR Department has revised the *New Hire Supporting Documentation Checklist and Background Summary* form to include the following additional required items: Emergency Phone Notification System form; Electronic

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Communication, Handbook, and ID Agreement form; and Election of Number of Paychecks form, to ensure these forms are included in the respective employee's HR file. Since the programs are responsible for obtaining the Reference Check form, we recommend including this item as part of the standard Background Investigation Check (BIC) form that needs to be prepared and signed-off by the programs.

4. Consider further utilizing the SchoolFront system in the HR Department to ensure the required on boarding documents are completed and submitted timely (e.g., Form I9 documents, Reference Checks, Retirement System Enrollment Forms, Transcripts, TEACH Certifications, Oath of Allegiance Forms, etc.). In addition, using this system would allow the HR Department to enter notes for items that require any follow up action.
5. Investigate the possibility of changing the practice for calculating payroll payments for paraprofessional employees (i.e., aides) when such staff does not work for a full month from Swaim to the straight-line method, since the Swaim method is more complex and time consuming.
6. Create a standard Payroll Dock sheet to formally document and communicate the payroll changes. The sheet would be prepared by the HR Department and submitted to the Payroll Department that should include the details to support the docking of payroll activities.
7. Consider setting up the Leave of Absence form within the SchoolFront system to facilitate the process relating to requests and approvals of requests as well as for receiving additional documents from employees (e.g., intent to return letters, updated medical notes from doctors, etc.). In addition, using the SchoolFront system would allow others to see pending items in the event that the HR administrators are absent.
8. Continue with collection efforts to obtain monies due related to the overpayments to separated employees. We recommend that ESBOCES strengthen the collection process by considering engaging their legal counsel and/or utilizing collection agencies to facilitate the recovery of overpayments. We also recommend that ESBOCES improve procedures related to overpayments by utilizing the WinCap Accounts Receivable module to manage the recording, invoicing, receiving, and monitoring of the overpayment activities. This would facilitate the collections process by establishing procedures to review the outstanding balances report each month and taking necessary actions to collect the monies due.
9. Improve the timeliness of communications and arrangements with employees when any overpayments have been identified. The process should include maintaining formal documentation related to such overpayment, obtaining written consent from the employee, and utilizing the WinCap Accounts Receivable module as stated in the previous recommendation.

