

Tentative Draft

**Sachem Central School District  
Independent Accountant's Report On  
Applying Agreed-Upon Procedures  
Date, 2011**

**INDEPENDENT ACCOUNTANT'S REPORT ON  
APPLYING AGREED-UPON PROCEDURES**

Board of Education and Audit Committee  
Sachem Central School District  
Holbrook, New York

We have performed the procedures described in the following pages, which were agreed to by the Sachem Central School District (District), solely to determine the effectiveness related to the payroll function in complying with policies and procedures of the District during the period July 1, 2010 through April 30, 2011.

The District's management is responsible for administering this area.

This engagement to apply agreed-upon procedures was performed in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of the procedures is solely the responsibility of the District. 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 audit, the objective of which would be the expression of an opinion on the District's internal control related to the payroll function. Accordingly, we do not express such an opinion. 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 the District's administration and other employees during our engagement.

This report is intended solely for the information and use of the District and is not intended to be and should not be used by those who have not agreed to the procedures and taken responsibility for the sufficiency of the procedures for their purpose.

Date, 2011

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**Introduction:**

This report is organized as follows:

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

Some of the recommendations may require a reassignment of personnel duties within the District and/or a monetary investment. However, any enhancement of controls should be done after a careful cost-benefit analysis.

**Corrective Action Plan:**

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

The District should send the Corrective Action Plan (CAP) along with the respective Internal Audit Report via mail or email to the addresses listed below. The report needs to accompany the CAP to allow the Office of Audit Services (OAS) to reconcile the District's CAP to the report to ensure all items have been addressed (i.e., CAP is not missing anything).

***Submission Information – Mail & Email***

New York State Education Department (NYSED)  
Office of Audit Services (OAS)  
89 Washington Avenue  
Room 524 EB  
Albany, NY 12234  
[Fsanda133@mail.nysed.gov](mailto:Fsanda133@mail.nysed.gov)

***Contact***

Mr. John Cushin  
(518) 474-5928

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**PAYROLL/PERSONNEL**

**Background:**

Good business practice requires that the District establish proper segregation of duties and adequate controls over the payroll function. These controls should ensure the completeness and accuracy of payroll related transactions (e.g., salaries; claims forms; stipends; separation payouts; etc.); changes to salaries; user account revisions; and the retention of proper documentation supporting the activities, to name a few.

We performed a review of the District's payroll processing that included meetings and testwork, as per the engagement letter dated March 21, 2011, to determine the effectiveness of the payroll function. We gained an understanding of the past practices, current initiatives and planned implementations of the District, which are covered in more detail in the sections below. We worked collaboratively with the District to identify opportunities to strengthen internal controls, improve operational efficiencies, ensure proper oversight and ensure supporting documentation related to payroll processing activities.

As in all school districts, payroll is the largest expenditure at the District. The Business Office has 7 full-time employees and 1 part-time employee working in the Payroll Department, who handle all of the District's payroll processing. The District utilizes the Pentamation financial system to process payroll. This is a powerful, sophisticated product that has been tailored to meet the requirements of New York State school districts. The payroll module is fully integrated into the financial reporting module, which is very efficient and significantly reduces the likelihood of processing errors.

The District's expenditures related to salaries including overtime totaled \$146,726,523 for the fiscal year ended June 30, 2010, which represents approximately 56% of the total general fund expenditures of \$261,609,366, noted in the "Statement of Revenues, Expenditures and Changes in Fund Balances". The District's 2010-11 budget for salaries including overtime is \$150,923,916 representing a 1.7% increase over the 2009-10 expenditures.

**Summary:**

We found that the oversight and review of transactions seems appropriate; the adequacy of internal controls designed to mitigate the inherent risk within the payroll process appears adequate; and the Payroll Department is very engaged and understands the need to have proper controls in place. Our procedures included interviews with staff; reviews of contracts with employees, Board policies and written procedures; and testing of payroll related transactions, as noted in the procedures section. Based on our procedures, we found opportunities to further strengthen internal controls and enhance operational improvements as outlined in the findings and recommendations sections below.

**Procedures:**

Our procedures, as per the engagement letter dated March 21, 2011, were as follows:

- Review Board policies and District procedures related to the payroll functions.
- Interview Business Office personnel regarding policies, procedures, and systems in effect.
- Review the current payroll cycle process and identify the strengths, weaknesses, and key control attributes for testing.

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- Perform a payroll reconciliation of one cycle to the next during this fiscal year and document the process for the use of the District. On a test basis, review supporting documentation for all activities in one of the payrolls.
- Review year-to-date payroll related expenditures compared to budget and obtain explanations for unusual variances.
- Review payroll related activity for the period as follows:
  - For contractual payments – select sample of 25 payments to ensure amount paid agrees to employee records and contract (if applicable) and compare all amounts withheld for taxes, benefits, etc. to supporting documentation.
  - For non-salary payments (i.e., hourly, stipend, overtime, etc.) – select sample of 50 payments to ensure proper approval and amount.
  - For separation payments – select a sample of 5 payments to ensure final amounts are correct (i.e., retirement incentives; accumulated unused time), proper documentation is on file (i.e., retirement or resignation letter from employee, Board resolution) and compliance and specifications in the respective contract.
  - For disbursements to third parties as a result of withholdings (i.e., union due, taxes, etc.) – select all third party payments from the 2 payroll cycles selected for the reconciliation testwork and ensure all monthly payments are captured.
  - For changes to the payroll module data during that time period – select a payroll change report for one payroll to ensure all edits are appropriate, as well as properly approved and supported (i.e., Board approval).
  - For substitute teacher payments – review and document the procedures and select these payments from one pay cycle during that time period to ensure accuracy and completeness, as well as reconcile these payments to the permanent teachers’ absences and ensure the absences are recorded.

**Findings:**

Review of Board policies and District procedures and interviews with District personnel responsible for payroll activities noted:

- While the District does have a Board payroll policy (Payroll Procedures - #6800), we believe the following items should be included to improve the policy:
  - A statement that no payment should be made to any employee prior to services being rendered to the District.
  - A statement that no person may be added to the payroll prior to approval by the Board of Education.
- We found that the District has numerous written, formal procedures on file; however, the Payroll Department does not maintain a listing of these procedures (e.g., table of contents) to facilitate the search and reference process.

Review of payroll reconciliations, payroll related expenditures and testing of payroll related activity found:

- There was 1 selection where the gross pay for the employee who returned from a leave of absence was incorrect due to an error in the number of paychecks remaining for the fiscal year that was entered into

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the Pentamation system. The employee was underpaid by \$187 per check over 14.5 pay periods totaling \$2,707. We understand that the District intends to increase the employee's last paycheck after the Payroll Department completes its year-end procedure to ensure that every employee received the full contractual pay for the entire fiscal year.

- There was 1 selection where an employee was incorrectly increased both a step and a lane in the system instead of being increased only by the step. This was due to an error in the December 2010 *Consent Agenda for Personnel Items*, which indicated the employee's lane incorrectly; this document is used by the Payroll Department as the basis to modify salaries in the Pentamation system. The error was detected by the District on December 17, 2010, and a credit of \$547 was properly taken from the employee on the December 31, 2010 payroll.
- There was 1 selection where an employee was incorrectly listed on the July 2010 *Consent Agenda for Personnel Items* as having a part-time status (0.6) instead of full-time (1.0) status. The employee was under paid on the first two paychecks in September 2010. We found that the District identified the issue and properly paid the employee an additional \$1,476 on the October 8, 2010 payroll.
- There was 1 selection where the District miscalculated the pro-rating of an employee salary who returned to work from a leave of absence on January 31, 2011. We found that the error was caused while calculating the employee's daily rate of pay. As a result, the employee was underpaid \$1,864. We were informed that this error was corrected on the June 17, 2011 payroll.
- There were 2 selections where the employees were given step increases, along with the large majority of District employees who were systematically given a step increase in mass on February 1, 2011, that were not entitled to the increases due to failing to meet the time worked during the preceding period. Both errors were detected by the District and beginning on the April 22, 2011 payroll, each employee's paycheck was reduced by \$135 for the remainder of the fiscal year to adjust for the overages.
- The bargaining unit contracts with the teachers and nurses contain language that requires these employees to participate in the District health insurance plan for at least one year prior to becoming eligible for the health insurance waiver incentive. There does not appear to be any benefit derived with delaying the option for these employees to elect to waive health insurance as the District has an opportunity to save money when employees elect this waiver.
- There was 1 selection where the rate paid to a food service employee did not agree to the hourly rate found in the contract. Further review found that this was due to the methodology used to compute the food service workers' hourly rates, since longevity payments are inappropriately added into this rate. In addition, we found that the food service staff has access and responsibility to enter the number of hours into the Pentamation system. Also, we note that the procedures and documents used by the food services function differ from other areas of the District.

The testing of 5 separation payments totaling \$291,944 noted that the payout amounts were properly approved and accurate. However, we found the following items during this testwork:

- The language in the non-aligned contracts related to recess days is somewhat vague, lacks clarity, and is included with holidays in the same sentence, which made it difficult to verify the employees' entitlements to this benefit. The contract states that the respective employee "...shall be receive fifteen (15) days at Christmas, Easter and/or Spring recesses or at other days when teachers and students are not in attendance, all legal and designated religious holidays and the Friday after Thanksgiving."
- The UPSEU contract does not include the number of days or divisor to support the 261 amount used by the District to determine the per diem rate to calculate these employees' separation payments during

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the 2010-11 year. We were informed that the practice for the District is to use the number of workdays plus holidays for the given school year.

- The separation payments for the UPSEU – Sachem Support Staff Unit (SSSU) related to food services employees found that these payouts are prepared by that function, the food services function manually maintains staff attendance and the 210 days that we determined was used to calculate the per diem rate was based on the number of workdays as informed by the Payroll Department, but this number is not supported by the contract.

The testing of substitute teacher payments to ensure accuracy and completeness, as well as reconcile these payments to the permanent teachers' absences and ensure the absence is recorded found:

- There were no procedures to reconcile the days worked per the claim forms submitted by substitute teachers to the District's attendance records of the regular teachers to ensure that the regular teacher has been charged the appropriate absence. In addition, we found that there were no procedures at the school buildings to reconcile the Aesop system information to the claim forms to ensure accuracy and completeness (e.g., names of regular teachers, time worked by substitute teachers, etc.) resulting in the following:
  - There were 2 instances where the regular teacher being covered per the claim forms was not charged an absence in the Pentamation system. We found that the claims forms were completed incorrectly since they listed the wrong regular teachers. Further review of the Aesop system data revealed that the regular teachers that should have been charged for the time, were appropriately charged an absence in the Pentamation system.
  - There was 1 selection where the substitute teacher did not indicate the name of the regular teacher; the claim form only indicated the names of the subjects (i.e., math and history). Further review of the Aesop system found that the regular teacher was properly charged for the days in the District's attendance records.
  - There was 1 selection where the substitute teacher was paid for the day per the claim form; however, the Aesop system revealed that the regular teacher indicated "Substitute not needed".
- Based on our findings, the District has developed a process to agree substitute teacher claim forms to regular teacher attendance information to ensure completeness and accuracy of these records. In addition, the Personnel Department developed written, formal procedures to reconcile the Aesop system information to the claim forms to ensure accuracy and completeness (e.g., names of regular teachers, time worked by substitute teachers, etc.) and issued this document to all school buildings. This was implemented subsequent to our fieldwork and the new procedures were put in place at the start of the 2011-12 year.

**Recommendations:**

We recommend that the District consider implementing the following items to further improve internal controls and operational efficiencies related to the payroll function:

1. Establish standard procedures and documents within the District to create consistency and continuity with payroll and attendance activities. This will ensure that the food services function, and any other area with different processes, follow the same protocols and prepare the same records. We also recommend that the District determine if staff in the food service area should have access to, and enter the number of hours directly into, the Pentamation system. In addition, we recommend that the District enter the food service workers' longevity amounts into the Pentamation system as a separate line item from the hourly rates and using the number of pays for the year as the divisor.

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2. Modify the Board payroll policy (Payroll Procedures - #6800) to include:
  - a) A statement that no payment should be made to any employee prior to services being rendered to the District.
  - b) A statement that no person may be added to the payroll prior to approval by the Board of Education.
3. Improve procedures related to pro-rating employee salaries and salary changes by including a screen shot of the before and after amounts entered into the Pentamation system as part of the package of supporting documentation. A sample of the packages should be submitted to the Payroll Supervisor, who should review all of the calculations and the related data entry into the system and formally sign-off to approve the selected changes. In addition, a similar procedure should be implemented in the Personnel Department to ensure that the figures included in the *Consent Agenda for Personnel Items* are properly supported and each change is reviewed and approved by someone other than the preparer (e.g., the Assistant Superintendent of Personnel or other designated staff member of the Personnel Department) as this document is used by the Payroll Department to facilitate the changes made to employee salaries. We recommend that this procedure of performing an independent review be performed for all financially related documentation that is provided to the Payroll Department.
4. Develop procedures to have the Personnel Department work with the Information Technology (IT) Department to develop procedures to identify employees who are not entitled to a change in step. We recommend that the District create a Pentamation system-generated leave of absence report to list employees who may not be entitled to a change in step due to absenteeism in excess of the thresholds permitted as per the applicable bargaining unit contract. The report should be reconciled to a Pentamation system-generated rollover report prior to the initial payroll cycle and any employee that is found to have been rolled forward in error (i.e., incorrect step increase) should be manually corrected in the Pentamation system. In addition, upon completion of the task, the marked up report should be submitted to the Assistant Superintendent of Personnel for review and approval.
5. Determine if the future bargaining unit contracts with the teachers and nurses should be modified to allow the employees to elect the health insurance waiver immediately upon obtaining eligibility to receive the coverage, instead of requiring a one year waiting period. This change could be beneficial to both the District and the employee.
6. Improve the procedures related to separation payouts including:
  - a) Improving the separation payments for the UPSEU – SSSU related to food services employees by requiring these payouts to follow the same procedures as payments to other staff within the bargaining unit and automating the attendance process.
  - b) Revising the future contracts with employees to address the following points as noted in the findings section above: the per diem rate that should be used to calculate the separation payment (i.e., current daily rate or an average daily rate that may include prior year salaries); clearer language related to recess days; and the divisor (i.e., number of days) used to determine the per diem rate for the UPSEU and UPSEU – SSSU employees.
7. Develop a table of contents or index of the written, formal procedures used by the Payroll Department to allow easy reference. We understand that the Payroll Department has begun to work on this initiative.

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