

**Board of Education
Dryden Central School District
Dryden, New York**

**INTERNAL AUDIT REPORT
FOR THE 2017/2018
FISCAL YEAR**

June 11, 2018

Report Distribution

This report is intra-agency material intended for the use of the Board of Education and senior management of the school district preliminary to future decisions to mitigate risks to district operations. Any further distribution beyond these parties is at the sole discretion of the Board of Education. Inquiries should be directed to the District Clerk if further dissemination is requested.

June 11, 2018

To the Board of Education of the Dryden Central School District:

The following is the Internal Audit Report of the Dryden Central School District for the 2017/2018 fiscal year as required by the School District Accountability Legislation and Commissioner's Regulation 170.12.

Internal Audit Scope, Objective and Methodology

Scope. The scope of the internal audit is focused on control activities in the functions considered significant by the New York State Education Department in its Reference Manual for Audits of Financial Statements of New York State School Districts. On an annual basis, the internal auditor and senior management agree upon the scope of the audit. The following are the risk areas that have been audited by the internal auditor:

Year	Risk Area	Number of Control Activities
2010/2011	Food Service	11
2011/2012	Cash Management and Investments	4
	Petty Cash	5
	Extraclassroom Activity Fund	6
2012/2013	Cash Receipts and Revenue	29
	State Aid and Grants	10
	Purchasing	14
	Financial Accounting and Reporting	14
2013/2014	Governance and Control Environment	11
	Budget Development and Administration	11
	Accounts Payable	7
	Cash Disbursements	9
	Assessing Financial Condition	5
2014/2015	Payroll	15
	Personnel	8
	Travel and Conferences	7
	Auditing	4
2015/2016	Facilities Construction	5
	Facilities Maintenance	2
	Non-Resident Tuition	6
	Vehicle Fuel	7

2016/2017	Credit Cards	7
	Food Service	11
	Governance and Control Environment	11

For the 2017/2018 Internal Audit, the following risk areas and control activities were examined:

Risk Area: Payroll

- PAY 1. District policies and practices prevent payments to employees in advance of services actually being rendered.
- PAY 2. Prior supervisory approval is required for overtime.
- PAY 3. The budget contains a separate line item for overtime to permit analyzing its use and the potential need for additional staffing.
- PAY 4. The district maintains adequate supporting documentation (e.g. time sheets, leave accruals, etc.) for payroll to ensure that payments are made only for services actually rendered.
- PAY 5. The district has written agreements outlining compensation and benefits for employees who are not covered by union contracts.
- PAY 6. Each employee must submit a time sheet or record of accrual usage for review and approval by a supervisor or management.
- PAY 7. Authorizations are maintained to support all deductions from payroll checks.
- PAY 8. Each payroll register is reviewed, approved, and certified by an official designated by the board to ensure the payments are accurate and justified.
- PAY 9. The district routinely performs a payroll audit including payouts or floor checks and a review of payroll or personnel files to compare contracts/salary notices/board appointments to actual payrolls, and to ensure that amounts withheld from employees' pay go to the intended places.
- PAY 10. The district has written procedures describing the employment process (advertising/posting, interview, reference/credential check, offer, acceptance, starting date, etc.).

- PAY 11.** References and credentials are routinely verified to ensure prospective employees possess the necessary qualifications.
- PAY 12.** The district requires and maintains written authorizations for changes in salaries, hiring, etc.
- PAY 13.** The district has a system to track employee leave accruals.
- PAY 14.** The district requires periodic evaluations for all of its employees.
- PAY 15.** The district has an employee handbook that is kept current.

Risk Area: Personnel

- PER 1.** The district has employee job descriptions that outline job duties and qualifications required for all positions.
- PER 2.** Unclaimed paychecks and returned W-2s are returned to an individual independent of payroll processing and investigated.
- PER 3.** Duties are adequately separated so that the individual processing payroll transactions is different from the individuals with responsibility for the general ledger function, payroll distribution, and reconciliation of the payroll bank account.
- PER 4.** All payroll changes are authorized and documented.
- PER 5.** Access to the computerized master payroll file is restricted.
- PER 6.** Procedures are in place to comply with IRS and NYS Department of Taxation and Finance regulations.
- PER 7.** The district has procedures to ensure individuals working for the district are properly classified as employees (W-2s) or independent contractors (1099s).
- PER 8.** The district has procedures to ensure current and prospective employees are fingerprinted.

Objective. The objective of the risk assessment is to determine whether deficiencies existed in any of the selected control activities, whether these deficiencies raised the likelihood of a loss to the district and to determine the possible magnitude of the loss. Deficiencies are indicators that errors in financial processes and reporting, or the loss of district assets through waste, fraud or abuse or from a lack of compliance with law and regulation, could result.

Methodology. Process auditing was utilized to assess risk. In process auditing, the auditor reviews the flow of transactions for a manageable function. The flow consists of a number of identifiable steps from start point to end.

At points in the process, key controls should be established to ensure it continues to its intended conclusion. These are the internal controls which are often referred to as management controls. Where these controls are absent or inadequate, the risk of error in the results increases. The assignment of a high risk assessment is not an indication that waste, fraud or abuse has been detected, but is an indication that conditions exist which could enable waste, fraud or abuse to occur.

SUMMARY of 2017/2018 RISK ASSESSMENT RESULTS

Payroll	Personnel
Pay	Per
1 - Med	1 - Low
2 - Low	2 - Low
3 - Low	3 - Low
4 - Low	4 - Low
5 - Low	5 - Low
6 - Low	6 - Low
7 - Low	7 - Low
8 - Low	8 - Low
9 - Low	
10 - Med	
11 - Low	
12 - Low	
13 - Low	
14 - Low	
15 - Low	

LEGEND	HIGH	MEDIUM	LOW
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Residual Risk

By their very nature, risk exists in the above functional areas. Because of this, management applies controls to these areas to reduce or mitigate risk to an acceptable level. Residual risk is what remains after these controls are developed and applied. The table above shows the assessed level of residual risk in the functional areas according to the traditional three levels of high, medium, and low.

A *high* risk compels management to improve the controls as the risk is considered significant. A *medium* risk exists in an elevated level above low and requires further study to improve controls but also to achieve a balance of cost and benefit. A *low* risk is an acceptable level and requires no action as controls provide reasonable assurance that the risk is mitigated.

Comments and Recommended Actions

Each of the control activities examined has been assigned a risk level that has been based on a review of district practices, procedures, and tests. Recommended actions have been made for control activities with an assigned risk level of *high*. Control activities that have been assigned a risk level of *medium or low*, can, in many instances still be improved upon. As a result, where appropriate, recommendations have been made to improve the internal controls for these control activities as well as those with a *high* risk assessment.

Although no High Risk Level was assigned to any of the activities identified by the NYS Education Department, other areas of concern came to light while conducting the internal audit that could result in waste, fraud or loss. These items are identified below:

Payment for Services Prior to the Services Being Rendered

The 2017/2018 pay schedule for the district distributes annual wages and salary in equal installments over the course of the fiscal year. Although this practice allows employees to plan on a relatively consistent bi-weekly paycheck, the practice creates situations where some employees are paid prior to services being rendered. The practice could be considered a "gift or loan of public funds" that is prohibited by Article VIII of the New York State Constitution.

It should be noted that district office staff are diligent in assuring that if an employee has been overpaid and leaves district service, that any wages or salaries that have been overpaid are recouped. With that being said, it is recommended that the district consider reducing the exposure of payment in advance of services rendered.

Personnel Files

A review of active employee personnel files revealed that there were a number of items in personnel files that should, most appropriately be placed in the employee payroll, benefits or other confidential file.

It is recommended that only the following material be maintained in employee personnel files:

- Job description (present, past positions)

- Résumé

- Appointment notice

- Records relating to job offers, promotion, demotion, transfer, layoff, rates of pay and other forms of compensation, and education and training records

Records relating to other employment practices (including policy acknowledgments and agreements)

Letters of recognition

Disciplinary notices or documents

Performance evaluations and goal setting records

Termination records

Employment Application

Orientation Checklist

Emergency Contact Information

Copy of Driver's License, if required for the position

Change in Personal Data Form

Position/Rate Change Forms

Record of Disciplinary Action (Verbal and Written Warnings), if applicable

Absentee Record

Requests for Time Off

Training Requests

Documentation of Training

Documentation of Certification and/or License (if applicable)

Requests to Review Personnel File

Resignation Statement

The recommended contents of the personnel file includes only data specific to the status and performance of the employee. Since no personal information (I.E. – Social Security Numbers, medical data, etc.) is included in the personnel file, the file should be readily available to review by the employee and other interested personnel, including supervisors without the need to explain why the individual needs to review the file.

It was noted that employment contract with the Dryden Faculty Association indicates that each unit member must sign all items placed in his/her personnel file. No signatures were found in the

personnel files tested, thus placing the district in jeopardy of violation of the terms and conditions of the negotiated contract.

Other Employment Related Documents

The following documents belong in a separate file(s) and should not be accessible to supervisors who are seeking information about the employee's work performance. The information found in these documents is protected under privacy laws and belongs with other guarded, confidential documentation.

Invitation to self-identify disability or veteran status records.

Interview notes and employment test results.

Reference/background checks.

Drug test results.

Immigration (I-9) forms.

Medical/insurance records (medical questionnaires, benefit enrollment forms and benefit claims, doctor's notes, accommodation requests, and leave of absence records).

Child support/garnishments.

Litigation documents.

Workers' compensation claims.

Investigation records. (Only any relevant disciplinary action, counseling or other direct communications would be placed in the employee's personnel file.)

Requests for employment/payroll verification.

Benefits File

It is recommended that the District establish a Benefits File for each employee. The contents of the Benefits File should include the following:

Benefits Application and Declination Forms.

Health, Dental, Vision, and/or Pharmacy Insurance Enrollment Forms.

Flexible Spending Account Forms

Election Form/Compensation Reduction Agreement

Retirement Forms.

Employees Withholding Allowance.

Beneficiary Designation Forms.

Payroll Deduction Authorization Forms.

Garnishments/Income Executions.

COBRA paperwork, if applicable.

The contents of the Benefits File are confidential and access should be limited to the employee and other staff who need access to perform their assigned duties.

Other Confidential Files

The Personnel Files and the Benefit Files contain items of a routine nature and are separated to protect the personal data of the employee. However, there are often other employee records that must be maintained, but should not be filed in either the Personnel or Benefits Files. It is recommended a separate file be maintained for each employee which would contain the following documents, if applicable:

Documentation of Investigations.

Lawsuit or DOL/EEOC investigation correspondence.

EEOC and Affirmative Action Data.

Background Check and Drug Testing Results.

OSHA Forms.

Employee Incident Report.

Medical Information.

FMLA Forms.

Certification of Health Care Provider.

Family Medical Leave Periodic Reports.

Family Medical Leave Return to Work Certification.

Disability and/or Workers' Compensation Claim Forms.

Accommodation Requests.

Access to these files should be limited to the highest levels of district administration.

Files of Candidates Not Hired

A review of the files of candidates for positions in the district that were not hired indicated that the files included reference checks as well as interview notes. It is recommended that these files be reviewed and the contents limited to the following:

Vacancy Notice

Application of the candidate

Credentials of the candidate

Correspondence to the candidate regarding the scheduling of an interview

Correspondence informing the candidate of status of application

Vetting of Employment Candidates

The initial vetting of candidates for instructional vacancies is accomplished utilizing on-line resources that are available to both human resources as well as the administrator seeking to fill the vacancy.

Currently, the human resources specialist is copying all of this data in a paper format and forwarding it to the administrator. This is a redundancy of effort that is not required.

Candidates for non-instructional positions are initially vetted by Tompkins County Human Resources. This process requires that the district human resources office inform the administrator seeking to fill a vacancy of the eligibility of all candidates. This process is working effectively and efficiently and should be continued.

Notices of Vacancies

The district utilizes a number of means of providing notices of vacancies including print and electronic notifications. These notices are initiated by the human resources specialist. During the course of the audit, some administrators expressed concern for the length of time it may take for the human resources specialist to post vacancy notices. It is recommended that all notices of vacancy be posted within twenty four hours of human resources specialist being informed that a vacancy exists.

Personnel Software

In August of 2013, the district changed from an outdated DOS based personnel software that could no longer be supported by information technology staff. At that time, the district began utilizing modules in its payroll and accounting software (Win-Cap) to record personnel data. As with the old

DOS based system, there is some data that needs to be maintained in separate data files or spreadsheets. These items include:

Substitute lists

Academic Credits

Listings of Volunteers

The tracking of evaluations for coaches and co-curricular staff

Tenure Due Dates

Permanent Appointment Dates

This audit proved inconclusive in determining if the current Win-Cap modules are being utilized effectively. However two issues did become apparent:

There was and is a lack of training on what reports can be obtained through Win-Cap.

Initially, there was insufficient time to properly transfer data from the old system to the new.

It is recommended that appropriate training be sought from Win-Cap on the operation of the personnel modules associated with their software. As the software is maintained by OCM BOCES, it has been difficult to arrange for direct training from the software company. As a result, it may be necessary for OCM BOCES support staff to provide this training.

It should be noted that some of the initial data may have been entered in inappropriate fields and may need to be deleted and reentered into correct fields.

Availability of Human Resources Specialist

The human resources specialist plays a vital role in interacting with all district staff. However, the effectiveness of this interaction can be greatly limited when the hours of the human resources specialist does not coincide with that of the other district employees. It is recommended that the district consider a closer alignment of the office hours of the human resources specialist to that of the remainder of the district employees.

Annual Appointments – Coaches and Co-Curricular Positions

Article XIV of the current contract with the Dryden Faculty Association indicates that "All co-curricular positions will be posted annually and in a timely fashion" and that "individuals interested in serving or continuing to serve in any such position shall make application to the Superintendent or his/her designee." This procedure allows all interested individuals to apply for these positions annually.

It was noted by the athletic director that he interviews all applicants, even those for a sport where the only applicant is the incumbent who has for a number of years received excellent evaluations. Consideration should be given to eliminating the interview step in these circumstances. Where more than one individual applies or a single applicant is new to the position, the interview process should continue.

Compensatory Time

Only one negotiated employment contract in the district allows employees to utilize compensatory time (Dryden Administrators' Association Contract Article 5-K). This is appropriate as the members covered by this agreement are exempt from the provisions of Section 207(o) of the Fair Labor Standards Act. In short, the article allows administrators to exercise independent judgment in taking time off from work to compensate for duties performed outside of normal work hours.

It is recommended that a record of this time be maintained by the district. Such a record would allow the district to determine the extent and accumulation of such time which could create a significant liability if allowed to continue unchecked. In addition, protection from an improper workers' compensation claim would be afforded the district should an employee covered under this agreement be injured while on compensatory time.

Flex Time

Flex time typically results when an employee is absent for short periods of the scheduled work day and "makes up" the time by working additional hours. A review of employment contracts in the district indicates that the use of flex time is not specifically allowed. However flex time is made available to those employees who are managerial-confidential and not a member of a recognized bargaining unit.

The issues surrounding flex time are similar to those associated with comp time, namely the potential for creating a large liability for the district when the employee leaves district service and the potential of an improper workers' compensation claim. The district is urged to consider these issues in deciding if they wish to continue granting flex-time to employees. Should the decision be made to continue the practice the following controls are recommended:

- All flex time must be approved by the employees' supervisor

- A record of flex time taken and "re-paid" must be maintained by the district

- Flex time should be limited to one or two hours

- Flex time must be "re-paid" within the next pay period

- Care must be exercised to assure that the "re-payment" does not result in violation of the Fair Labor Standards Act

- The use of flex time cannot interfere with the operations of the district

Human Resources Staffing

It is my belief that for a district the size of Dryden, the human resources department is adequately staffed with one full time individual (human resources specialist). However, as indicated previously, there is considerable work that is required to properly organize files and to fully implement Win-Cap training and the re-entering of data where necessary. I do not believe that this possible without some additional assistance being provided.

Prior Years Recommendations


During the course of the internal audit, observations and inquiries were made regarding the status of the recommendations made in the previous internal audit report. Although a complete internal audit was not conducted, it can be concluded by the information gathered by these observations and inquiries that management has, or is taking the necessary actions to correct the deficiencies reported.

Other Matters

During the course of the internal audit, observations were made of procedures and practices that could benefit from improvement but did not elevate the risk of district assets or operations. These matters were discussed with the business official as suggested improvements and have not been documented in this report.

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Ronald C. Finch

Internal Auditor

June 11, 2018