

Webster Central School District
2020 Payroll Payments
Internal Audit

May 27, 2021

AUDIT REPORT

School District: Webster Central School District (WCSD)
To: Brian Freeman, Assistant Superintendent for Finance and Management Services
From: Timothy Hungerford, Hungerford Vinton, LLC
Subject: 2020 Payroll Payments Internal Audit
Report Date: May 27, 2021

OBJECTIVE:

Internal Audit performed a risk assessment for WCSD in March 2019 and determined that one of moderate risk areas for WCSD is the Payroll Cycle. However, since that time, the Covid-19 pandemic forced a reevaluation of the key risks, and the payroll payments made in the calendar year 2020 were considered an area that should take priority for an internal audit.

The main objective of the internal audit was to:

- Perform data analysis to identify any of payroll information anomalies for further review (i.e., unexpected changes in payment amounts, unexplained additional amounts or excessive amounts paid)

AUDIT SCOPE & KEY INFORMATION:

Based on conversations with key WCSD contacts, we determined the information processed through Wincap would be the main source of our data analytics. Our main contacts at WCSD were Brian Freeman, Donna Ewing, and Kate Ferruzza. We requested the payments made to employees for the calendar year 2020 and had the name of the employee hidden in case the data was compromised.

AUDIT APPROACH

We customized an audit program to focus on data analytics of the payroll payment data. This included:

- Stratifications of the data for outliers and relative size factor testing
- Summarization of the data compared to 2020 federal filings (W-2)
- Benford's Law application for fraud identification

Upon identification of anomalies, review supporting documentation for authorization and reasonableness.

AUDIT INFORMATION USED:

The information provided by WCSD included the following:

- WINCAP
 - Payroll payment data for 2020
 - 86,635 lines of payments totaling \$92,070,812.74.
- Interviews
 - Meetings and interviews with key personnel.
- Support and authorization for identified anomalies.

SUMMARY OF AUDIT FINDINGS:

During our review of the 2020 Payroll Payments, we identified the following significant issues:

No Significant Findings

All identified anomalies were supported with documentation and authorization by the WCSD.

MISCELLANEOUS OBSERVATIONS

During our review we identified information that was not considered a significant issue for the WCSD; however, the information was viewed as important to share with the audit committee.

- Notification of Terminations and Hirings. There were a couple instances where employees were not paid correctly due to the timing of communications from the school buildings to the central offices. For example, one substitute was not paid for nearly six weeks after starting work due to the timing of the proper paperwork and submission to the central offices for processing. This can also occur related to terminations causing employees to be paid after service has ended. When these situations occur, the business office ensures that the retroactive payroll is processed, or the excess paid amounts are collected. Because this is an infrequent occurrence and all instances are resolved by the business office in a timely manner, we did not consider this a significant issue.
- During the COVID-19 pandemic of 2020, there were unusual circumstances related to pay brought on by state official mandates. One such requirement was a time when essential individuals were paid time and a half when they would not normally have been paid at that rate. As such, there were adjustments or retroactive payment adjustments that occurred in 2020 that appeared to be anomalies. Upon review, these payments were properly reviewed and authorized.

APPENDIX A

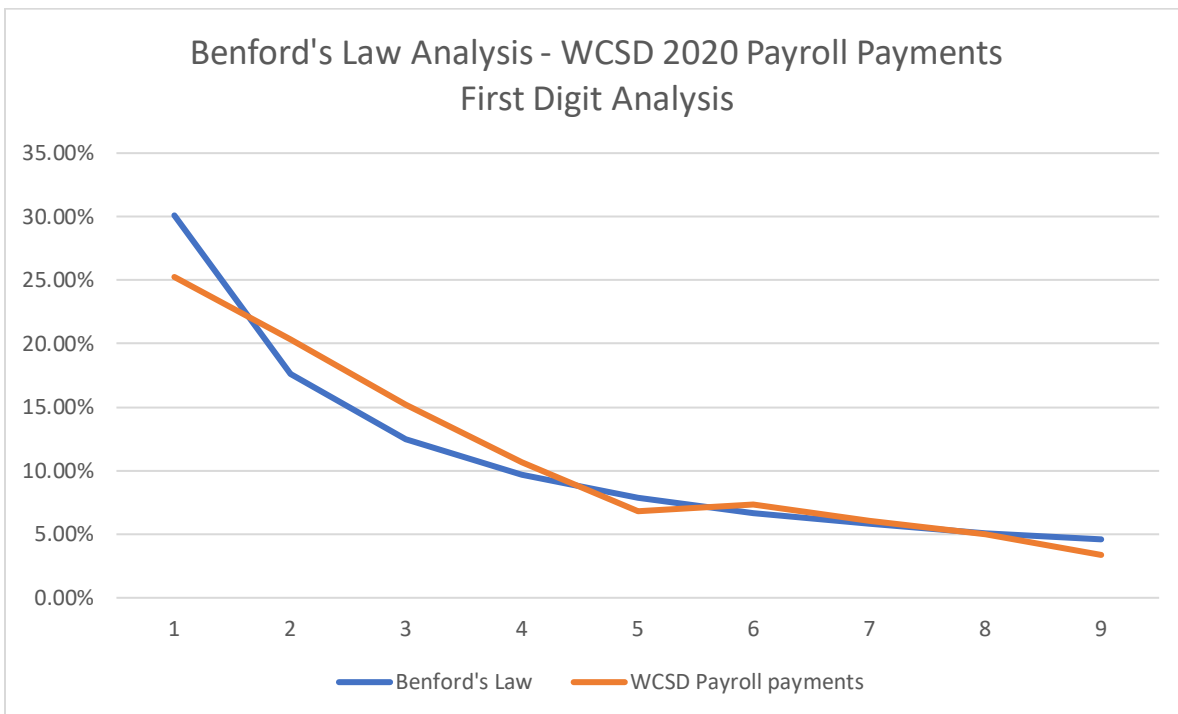
Benford's Law Analysis

Benford's Law is a data analytical tool that attempts to identify fraud in large quantities of data transactions. It is based on the frequency distribution of leading digits in sets of numerical data. The principle states that in many naturally formed collections of numbers the probability of the occurrence of leading digit (\$1,000 has a leading digit of 1) will obey closely to a set of percentages. For example, the probability in a naturally occurring set of transactions that the first digit will be a 1 is 30.10%. Benford's Law has assisted in identifying fraud anomalies. It has also expanded to the first two digits to assist in narrowing the identification of fraud.

We performed Benford's Law on the WCSD 2020 payroll data. Based on our review of diversions from the expected probabilities, we did not identify any fraud using this technique.

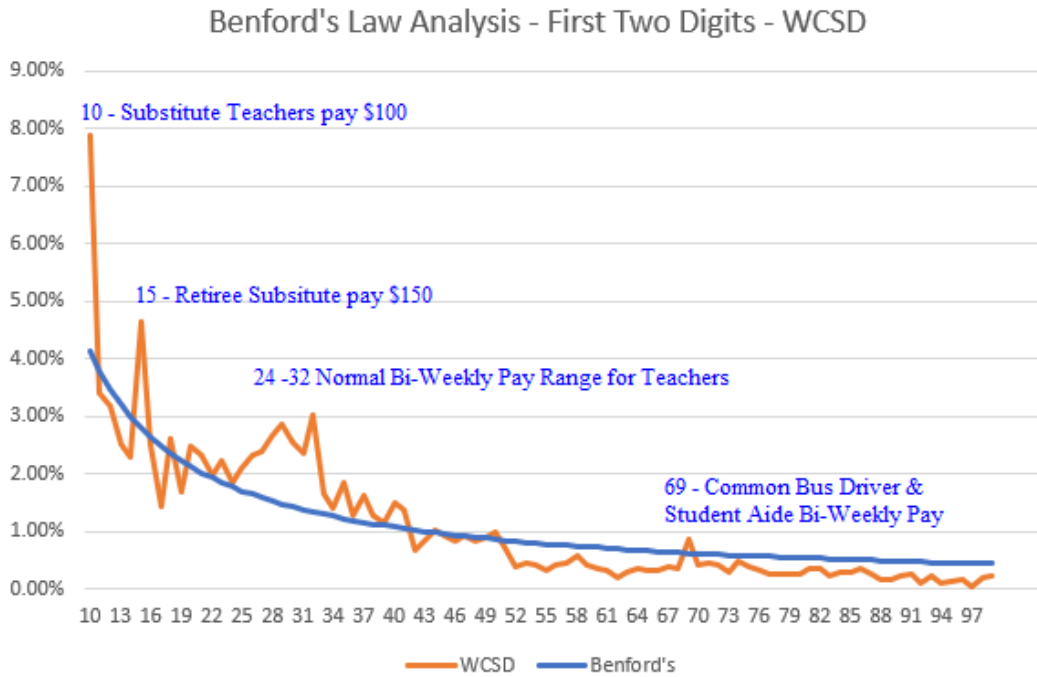
First Digit Analysis:

It is common for teachers and administration to have payroll amounts starting with 2 or 3 based on contractual terms which explains the deviation from Benford's Law, so all appears proper.



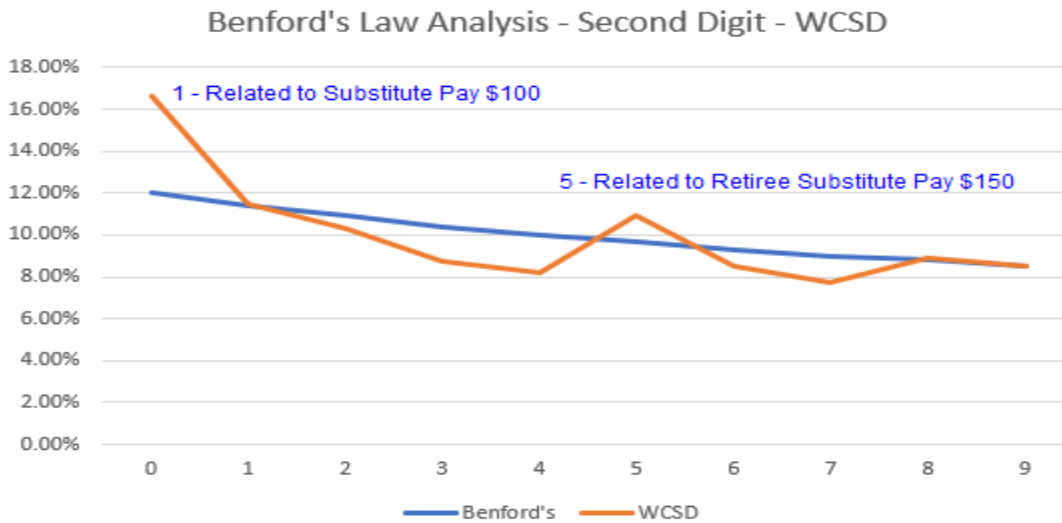
First Two Digit Analysis:

The deviations from Benford's Law are related to fixed contractual payments and appear to have reasonable justifications.



Second Digit Analysis:

The deviations from Benford's Law are related to fixed contractual payments and appear to have reasonable justifications.



DISTRIBUTION

Send to:

Webster Central School District:

Brian Freeman, Assistant Superintendent of Business

WCSD Audit Committee

Auditor(s):

Hungerford Vinton, LLC

Timothy Hungerford, CPA, CIA, CMA, CFM, CFE, CISA