

**Columbus City Schools
Office of Internal Audit**



**COLUMBUS
CITY SCHOOLS**

Payroll - Overpayment

Audit Report

Report Date: September 26, 2019

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Executive Summary

The Columbus City Schools (District) Office of Internal Audit (OIA) has recently completed a general audit of various sub-processes within the Payroll overpayment process. Our audit focused on evaluating predetermined objectives selected by OIA and following up on prior audit recommendations previously made in this area. This general audit consisted of the review and testing of these objectives relevant to the Payroll overpayment process.

Based on the results of our work during this audit, we found areas where improvements could be made to strengthen the internal control environment and enhancements could be made to current processes to increase the efficiency of the Payroll overpayment process.

During the course of our audit, we made management involved in the Payroll overpayment process aware of our issues, comments and recommendations for improvement. Good discussion took place regarding the recommendations. OIA appreciates the cooperation extended to us and the assistance of all staff we came into contact with as we performed our audit.

The following are OIA issues noted during the review:

Risk Ratings, defined:

1 – High/unacceptable risk requiring immediate corrective action;

2 – Moderate/undesirable risk requiring future corrective action; and

3 – Low/minor risk that management should assess for potential corrective action.

Issues	Risk Rating		
	1	2	3
Objective 1: To determine written business objectives/goals, metrics and risk analysis exist for the Payroll process including overpayments.			
Issue No. 1 – Lack of business objectives, metrics, and risk analysis of the Payroll overpayment process. Repeat Issue	X		

Issues	Risk Rating		
	1	2	3
Objective 2: To determine sufficient internal controls are in place and operating as management intends for the overpayment process.			
Issue No. 2 - Lack of BOE policies relating to overpayments. Repeat Issue	X		
Issue No. 3 – Lack of policies and procedures for the Payroll overpayment process. Repeat Issue	X		
Issue No. 4 – Lack of all-inclusive list to track overpayments due the District. Repeat Issue	X		
Issue No. 5 – Insufficient evidence supporting overpayment account balance reductions.		X	

Audit Objectives

The objectives of the audit were to determine:

- Written business objectives/goals, metrics and risk analysis exist for the Payroll process including overpayments; and
- Sufficient internal controls are in place and operating as management intends for the overpayment process.

Sub-processes reviewed during this audit were:

- Recording of overpayment;
- Communication to employee of overpayment;
- Reconciliation of payments received to balance due;
- Escalation of unpaid balances (follow-up of 24 overpayments identified during 2016 audit and noted as having a balance due); and
- Management oversight of overpayment process.

Audit Scope

OIA established the scope of the audit to include a review of basic operational aspects of the processes and evaluation of internal control environments as they relate to the noted objectives. The period of time for the audit included all activity relating to the Payroll overpayment process that occurred from July 1, 2018 and ended April 30, 2019. Additionally, OIA performed a follow-up of the status of repayment for the 24 overpayments reflected as a balance due at the time of the OIA Payroll audit issued on January 28, 2016.

Methodologies

To accomplish our stated objectives, OIA performed the following tasks as they related to those objectives:

- Reviewed various authoritative literature governing work reviewed (i.e. Relevant Ohio Revised Code & Ohio Administrative Code sections, ODE guidance, etc...);
- Review of relevant CCS policies and procedures;
- Review of prior audits;
- Interview the CCS personnel that handle Payroll – Overpayment activities;
- Documentation of key processes;
- Review of management reports and oversight;
- Review of various files; and
- Review of best practices and metrics used by other entities performing similar functions.

Background

The District's Payroll Department is primarily responsible for ensuring complete, accurate, and timely payment of District employee payroll, as well as the proper recording and payment of custodial funds and appropriate accounting of employee leave and balances. The Payroll Department also handles the tracking of identified payroll overpayments and repayment of those funds from the affected employees.

The Payroll Department processes the documentation of any identified overpayments and sends a letter to the employee notifying them of the overpayment, reason, and repayment plans. Payroll establishes the automatic payroll documentation in MUNIS for the repayment terms agreed to, if the employee is still an active employee with the District. Repayment of overpayments, when not direct deduction from employee paycheck, are either delivered directly at the payroll front window to one of the payroll clerks or mailed to the Treasurer's Office and provided to the Payroll administrator for processing. Payroll overpayments can occur for various reasons including, but not limited to:

- Payment for hours scheduled and payment for leave used resulting in "total" hours exceeding scheduled hours;
- Payment for hours scheduled after employee has left the school system;
- Payment for hours scheduled when employee is in an unpaid status;

- Payment for full-time hours when employee is a part-time employee;
- Payment for supplement when not entitled to supplement; and
- Payment for full supplement when only entitled to a partial supplement.

MUNIS is the accounting system used to record and process payroll for CCS employees as well as to maintain leave balances except for compensatory time. The MUNIS payroll module (including but not limited to employee paycheck calculation and payment, payroll totals by department, leave balances, etc.) is handled by the Payroll Department in the Treasurer’s Office. The MUNIS human resource module (including but not limited to position, payroll fund, hourly / salary designation, pay rate, eligibility for overtime / compensatory time, retirements, resignations, extended leave, etc.) is handled by the Human Resources Department.

Overpayments

In the prior Payroll audit dated January 28, 2016, OIA compiled a listing of overpayments from existing payroll documents that showed 24 individuals owing the District \$81,289.80 due to overpayments. During the current audit, Payroll staff provided a listing as of April 16, 2019 that included 58 individuals that were overpaid and the outstanding amount due the District was \$118,376.26. The table below categorizes the outstanding balances by year:

Year Identified	Number of Overpayments	Total Amount Due (as of 4/16/2019)
2012	1	\$ 375.00
2013	1	\$ 265.26
2014	14	\$ 46,341.00
2015	9	\$ 26,611.66
2016	2	\$ 1,670.56
2017	16	\$ 39,180.01
2018	8	\$ 2,580.50
2019	7	\$ 1,352.27
Grand Total	58	\$ 118,376.26

Source: Payroll management spreadsheet as of April 16, 2019

Results of the Audit of the Payroll – Overpayment Process – Issues and Recommendations:

Issue No. 1 – Lack of business objectives, metrics, and risk analysis of the Payroll overpayment process. (Repeat Issue)

The District's Payroll overpayment process does not have business objectives (i.e. accuracy, completeness, consistency, cost-effectiveness, compliance and timeliness) guiding the tasks that involve the Payroll overpayment processes and activities. Furthermore, there are no metrics compiled for the Payroll overpayment process (i.e. aging report of overpayments, percentage of overpayments resolved for a specific period, reason for overpayments, etc...) that are routinely obtained to identify successes or how efficient and effective the Payroll overpayment process is operating. There is no risk analysis to identify areas where problems could occur.

A sound business practice is to establish business objectives, metrics, and risk analysis that correspond to the District's goals for the Payroll overpayment process.

Recommendations

- 1A.** Written business objectives should be established by all of the business units involved in the District's Payroll overpayment processes that correspond to the District's goals¹. These objectives should address: accuracy, completeness, consistency, cost-effectiveness, compliance and timeliness.
- 1B.** Metrics (what kind of errors are causing the overpayments, percentages of collection, accounts with no activity, etc....) should be established to measure the work performed that relates to each business objective. These metrics should be compared to defined benchmarks on a periodic basis (i.e. monthly, quarterly, etc...). This comparison will enable management to identify those areas that are meeting the benchmarks and those that need assistance.
- 1C.** Risk analysis should be performed for the Payroll overpayment to identify areas where problems could occur. Once the risks are identified, steps should be taken to minimize the likelihood that this risk will become problematic.

¹ Columbus City Schools Goals:

Goal 1: Each student reaches the student's full potential; to continue education, serve in the military, go to college, start a business, and enter the workforce as a life-long learner.

Goal 2: The District creates safe, student-centered, innovative learning environments and recruits, develops, and retains world-class talent.

Goal 3: The District is accountable to our communities and customers; confidence in the District is maintained through strategic, responsible and transparent leadership.

These procedures will help to ensure management is aware of the successes of the District's Payroll overpayment processes, as well as those areas where successes have yet to be achieved.

Management Response: 1A: Management is in process of establishing objectives for the various functions within the treasurer's office. These objectives will be overarching for each activity, e.g. payroll, accounts payable, etc. These objectives will not necessarily be specific to each activity (e.g. payroll overpayments) but will in general apply to all activities in terms of accuracy, completeness, consistency, cost-effectiveness, compliance and timeliness. 1B: similar to 1A, management is in process of identifying metrics for functional areas within the office and may or may not address certain specific activities depending on their relative impact on the overall effectiveness of the department. 1C: Department-wide risk assessment is planned as part of the departments overall tabulation and assessment of outstanding audit issues.

Process Owner: Stan Bahorek

Implementation Date: Target: 1A & 1B: July 31, 2020; 1C: January 31, 2021

Issue No. 2 – Lack of BOE policies relating to overpayments. (Repeat Issue)

We found that several District policies did not contain specific information regarding the payroll process. Specifically, policies don't exist to address overpayments made by the District, collection activities, payment plans, resolution of monies due the District after a certain amount of time, etc...

Recommendation

2. District management should make recommendations to the Policy Review Committee of the Board of Education regarding possible revisions to current District policies that will address ambiguities not clear in current policy and add language where important matters are non-existent. This will help to ensure all tasks performed by District staff are properly aligned with the wishes of the Board of Education. Additionally, these policies will help to inform employees and emphasize consistent treatment of all employees.

Management Response: Management will review procedure manuals for payroll generated as part of the Opportunities Study to determine if procedures for the overpayment process are included. If not, management will take steps to document said procedures in a similar format.

Process Owner: Stan Bahorek

Implementation Date: July 31, 2020

Issue No. 3 – Lack of written procedures for the overpayment process. (Repeat Issue)

The District's payroll function does not have policies and procedures related to the overpayment process.

Standard operating procedures provide a way to communicate and apply consistent standards and practices. Formalized procedures reinforce Management's expectations for the District.

Recommendation

3. Written procedures should be established for the District's payroll process, including payroll overpayments. These procedures should include, but not limited to the following:

- timely and accurate identification of payroll overpayments;
- notification and acceptance by the employee of the overpayment calculation and the repayment terms;
- actions to properly segregate the recording, collection, posting, depositing duties;
- documentation and reconciliation of payments received and overpayment balances due;
- escalation of unpaid overpayment balances; and
- monitoring and oversight of the overpayment process: accuracy, completeness, timely identification, and oversight among others.

Management Response: Management will review procedure manuals for payroll generated as part of the Opportunities Study to determine if procedures for the overpayment process are included. If not, management will take steps to document said procedures in a similar format.

Process Owner: Stan Bahorek

Implementation Date: July 31, 2020

Issue No. 4 – Lack of all-inclusive list to track overpayments due the District. (Repeat Issue)

The Payroll Department does not keep an all-inclusive list of overpayments made by the District and this information is not presented periodically to senior management. A review of the manual overpayment spreadsheet and the overpayment binder documentation reflected inconsistencies in the spreadsheet as there were several identified overpayments that were not in the overpayment log. Additionally, the manual overpayment spreadsheets, currently maintained by the Payroll department, do not include the individual payments made against the overpayment balance, date of the payments, format of payment (cash, check, or money order), or the root cause of the overpayment.

Recommendation

4. Payroll Department management should develop a report of all overpayments due the District in order to adequately identify the number of accounts receivable, frequency of payments due each month, amount of the payment, and reason for the overpayments. This listing should be periodically reported to senior management for their consideration. These procedures will help to ensure the Payroll department management can adequately track current overpayments and look at trends where action can be taken to reduce future overpayments and keep senior management informed regarding monies due the District.

Management Response: This will be part of the payroll procedures manual (if not it will be added) develop out of the Opportunities Study.

Process Owner: Stan Bahorek

Implementation Date: July 31, 2020

Issue No. 5 – Insufficient evidence supporting overpayment account balance reductions.

As of the last OIA audit, dated January 28, 2016, we were unable to obtain a comprehensive list of accounts receivable caused by overpayments made by the District from the Treasurer's Office. As this audit progressed, the Payroll Manager provided us with a current accounts receivable log for those individuals overpaid by the District. This log contained 58 names owing a total of \$118,376. Of these 58 accounts, we identified 21 accounts that had reductions noted in the account balance and found that 19 of these accounts had reductions that could not be supported by payroll deductions or revenue deposits. We also found three individuals that owed the District \$7,469 that were not included on the above referenced accounts receivable log.

Seven individuals that had separated from the District and had a balance owed due to overpayment have been re-employed by the District. Payroll deduction evidence was presented to OIA that demonstrated three of these individuals had paid off their existing balance entirely. Three other individuals had been paid in excess of \$800 each and nothing was withheld for the amount owed due to overpayment. Note: Once this was brought to the attention of the payroll staff, funds have been withheld from their payrolls beginning on November 1, 2019 to satisfy the amount due. One person had been paid \$20, but is being watched to ensure funds are withheld from future payrolls.

Recommendation

5. Management should establish a process by which all accounts receivable transactions that arose from overpayments made by the District are recorded in an accounts receivable log. Any adjustments to the amount due should be supported by payroll deductions and/or revenue receipts agreeing to the amounts paid. This

support should be maintained for future review. These procedures will help to maintain the integrity of the accounts receivable log and provide sufficient support documentation for the reductions to the accounts receivable.

Management Response: This will be addressed in our responses to #2 and #3 above.

Process Owner: Stan Bahorek

Implementation Date: July 31, 2020