

**Columbus City Schools
Office of Internal Audit**



**COLUMBUS
CITY SCHOOLS**

**Follow-up Review
Payroll Audit**

Audit Report

Report Date: April 26, 2018

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Executive Summary

Background

The Columbus City Schools (District) Office of Internal Audit Fiscal Year 2016 Work Plan included performing an internal audit on various aspects of the Payroll Department. The Payroll Department audit report was presented to and approved by the CCS Audit and Accountability Committee on January 28, 2016. As part of this audit, recommendations were made for the Payroll and the Human Resources Departments.

The Payroll Department operations are the responsibility of the District Treasurer. The Treasurer completed corrective action plans for payroll recommendations made in the above referenced audit report. Three of the recommendations included in the Payroll Department audit report relate to the Human Resources Department which is the responsibility of the Superintendent's Office. The Senior Executive Director completed corrective action plans for these recommendations.

Internal audits assist management in determining whether key financial internal controls, compliance functions and/or efficiency and effectiveness of operations are being performed and whether departments have clear guidance and adequate resources to perform their tasks.

This follow-up audit was completed to assess the status of corrective actions taken by management concerning the nineteen (19) recommendations included in the above referenced audit report.

Roles and Responsibilities

District management is responsible for follow-up and corrective action to address audit recommendations. To fulfill this responsibility, the Office of Internal Audit has a process in place to track the status of corrective action plans and ensure that audit issues are adequately resolved.

Objectives

The original objectives of the above referenced audit report were the following:

- Written business objectives exist to guide payroll function;
- Sufficient policies and procedures exist to govern the payroll process;
- Salaries and fringe benefits are calculated accurately;
- Fringe benefits terminated appropriately following employee separation;
- Leave forms are accounted for appropriately and those forms are submitted timely;
- Payroll overpayments are identified timely and collected appropriately;
- Manual checks are appropriately controlled;
- Payroll process is as efficient as possible;
- Absences documented in SEMS are complete and accurate;
- Custodial funds are determined appropriately and submitted timely.

Scope

The Payroll Audit follow-up work was completed in Fiscal Year 2018 and included a review of information from various points in Fiscal Years 2017 and 2018.

Approach and Methodology

To complete this follow-up audit we performed the following procedures:

- Reviewed the prior Payroll audit report and the corrective action plans that were approved by the Audit & Accountability Committee at the January 28, 2016 meeting;
- Interviewed Payroll and Human Resources Department staff and other relevant District staff to gain an understanding of the corrective actions taken and determine the status of the corrective actions according to management;
- Analyzed available information to validate information obtained during staff interviews;
- Tested available documentation to determine if corrective actions have been fully implemented, are operating as management intended, and addressed all issues included in the above referenced audit report.

Results

The initial Payroll Department Audit Report dated January 26, 2016, can be found within the documents tab on the Internal Auditor's web page located on the District's website. We consider an issue resolved if management implemented their corrective action plan or took other appropriate action to resolve the identified issues.

The Office of Internal Audit found that management took sufficient corrective action for 43% (6 of 14) of the remaining and tested issues from the original Payroll Department Audit Report. Four (4) issues included in the Payroll Department Audit Report had a compensating control that sufficiently minimized the risk associated with the original recommendation. Therefore, no additional follow-up work was performed and the status was noted as Not Applicable. One (1) issue included in the Payroll Department Audit Report was not tested as part of this follow-up because it was better tested as part of a future audit of overpayments. This audit report was reviewed with management and they agreed with the conclusions.

The Office of Internal Audit classified each recommendation into one of the following categories based on the work that we performed regarding the corrective action plan prepared by management and approved by the Audit & Accountability Committee at the January 26, 2016 meeting:

Implemented – Action described in the corrective action plan prepared by management has been fully implemented and testing performed by Office of Internal Audit staff validated that the actions are working as management intends.

Not Implemented – There was insufficient evidence that the corrective action plan prepared by management was fully implemented.

Management Accepted the Risk – Risk concerning this issue was accepted by Management and therefore no corrective action was taken.

Alternate means – Because most employees who use KRONOS are having their KRONOS timesheets electronically approved by their supervisor and this is being monitored by the Treasurer's Office, there is not a need to use paper leave forms. There will be no leave forms routinely submitted by KRONOS employees. Therefore, no procedures need to be developed or metrics to be compiled.

Not Applicable – There was a significant change to the internal control environment regarding this recommendation which made testing this issue no longer applicable.

Not tested – The corrective action plan was not ready to be tested by the Office of Internal Audit or it could be tested more efficiently during another time.

SUMMARY OF RECOMMENDATIONS – FOLLOW-UP

Based upon the procedures performed, a number of recommendations having varying degrees of risk were noted. The following table outlines the recommendations, the risk ratings assigned to each and the follow-up status. The definition of each rating’s significance is noted below the table.

Recommendations	High 1	Moderate 2	Low 3	Follow-up status
1. Written business objectives should be established for the District’s payroll function that corresponds to the District’s goals.		X		<i>Not Implemented</i>
2. Metrics (i.e. payroll errors, timesheet accuracy, etc...) should be established to measure the work performed that relates to each business objective.		X		<i>Not Implemented</i>
3. The District Treasurer should make recommendations to 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.	X			<i>Not Implemented</i>
4. The District should document the procedures concerning the payroll process in a written procedure manual.	X			<i>Not Implemented</i>
5. The District should develop a process that will help to enhance payroll accuracy. As a part of this process, there should be procedures to verify employees are receiving pay for time they actually worked.	X			<i>Not Implemented</i>
6. The District’s payroll management should develop and implement a report that will compare employees who have had a particular deduction in the prior pay period and do not have that same deduction in the current pay period and generate an exception listing.		X		<i>Implemented</i>
7. Payroll management should examine all exceptions and make any necessary adjustments.		X		<i>Implemented</i>

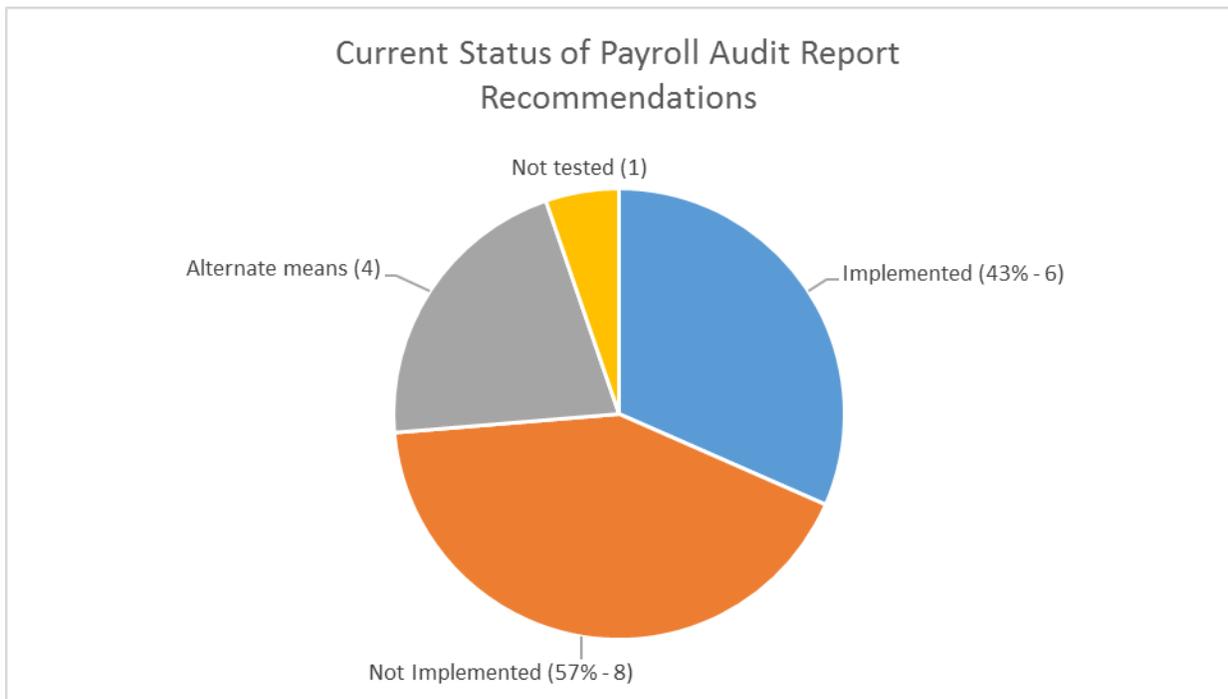
Columbus City Schools
Office of Internal Audit

Recommendations	High 1	Moderate 2	Low 3	Follow-up status
8. The Payroll Department should consider changes to the Payroll and Deduction Schedule to align their benefit premium collection process with sound business practices. Alignment with these practices will have the District's benefit premiums being collected for the current month in the pay periods paid during that month, thereby enabling the District to discontinue benefits for separated employees on the last day of the month that includes their last day of employment with the District.	X			<i>Not Implemented</i>
9. Reports listing all claims paid should be obtained from the dental and vision benefit provider on a monthly basis.		X		<i>Implemented</i>
10. Some type of electronic analysis should be performed on the claim reports to ensure that claims paid are only for eligible employees.		X		<i>Not Implemented</i>
11. Payroll Department management should develop a monitoring report regarding leave time reporting.	X			<i>Alternate means</i>
12. Human Resources Department management should take steps to improve the accuracy of what supervisors are shown in MUNIS.	X			<i>Implemented</i>
13. District management should encourage employees to periodically take time off.	X			<i>Implemented</i>
14. District management should develop a process that will ensure all leave time shown in KRONOS is properly supported by evidence documenting supervisor approval.		X		<i>Alternate means</i>
15. The Payroll Department should develop a mechanism to communicate procedures to supervisors who submit untimely Report of Employee Absence Forms.		X		<i>Alternate means</i>
16. Metrics should be maintained documenting those employees who submit leave forms outside the standard. These metrics should be routed to the Superintendent, Treasurer and Internal Auditor on a quarterly basis.		X		<i>Alternate means</i>

Recommendations	High 1	Moderate 2	Low 3	Follow-up status
17. 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.		X		<i>Not Implemented</i>
18. Human Resources Management should establish a monitoring procedure to verify that all separated employees have had the necessary updates entered into MUNIS.		X		<i>Not tested</i>
19. We recommend that the Treasurer's Office Payroll Department management develop a strategy to safely secure records.		X		<i>Implemented</i>

NOTE: 1-high/unacceptable risk requiring immediate corrective action; 2-moderate/undesirable risk requiring future corrective action; and 3-low/minor risks that management should assess for potential corrective action.

Summary



Open issues by risk level

Risk level		High	Moderate	Low
Total recommendations		7	12	0
Implemented		2	4	0
Alternate means		1	3	0
Not tested			1	
Not implemented		4	4	0
Open issues		4	5	0

Original Payroll Audit Report Issues, Recommendations, Original Corrective Action Plans, OIA work performed, and Current Status for those issues that were not deemed to be successfully implemented as a result of our testing.

Issues 1-3 Business objectives, metrics, policies, and procedures.

The District’s payroll function does not have any business objectives or metrics. Additionally, clear policies and procedures are in need of development.

Recommendations

1. Written business objectives should be established for the District’s payroll function that corresponds to the District’s goals¹. These objectives should address: accuracy, completeness, consistency, cost-effectiveness, compliance and timeliness.
2. Additionally, metrics (i.e. payroll errors, timesheet accuracy, 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. each payroll, monthly, quarterly). This comparison will enable Management to identify those business objectives that are meeting the benchmarks and those that need additional work.
3. The District Treasurer should make recommendations to 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

¹ Columbus City Schools 2014-2015 Goals:

Goal 1: Each and every child reaches his/her full potential: prepared to go to college, secure a job, serve in the military or start a business.

Goal 2: Learning environments are student-centered, efficient and stable.

Goal 3: The District is accountable to the community; the community’s confidence in the district is restored.

all tasks performed by payroll 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.

4. The District should document the procedures concerning the payroll process in a written procedure manual. This should include duties completed to benefit the payroll process performed by employees outside of the Payroll Department like the Controller and Systems Administrator. This will help to inform all employees who handle a piece of the payroll process of their job duties and can be used as a training tool in the event an employee is off the job for a significant amount of time.

Original Management Corrective Action Plans – Treasurer

1. Management will prepare written objectives for the payroll function to address this recommendation. This will be in conjunction with the preparation of a procedures manual. (Implementation date: June 2016)
2. Management will research industry benchmarks as well as the district's current capabilities to capture and tabulate data related to said metrics. An assessment will be made as to what additional resources are necessary in order to effectively capture and report related data. (Implementation date: September 2016)
3. The Treasurer will review with staff all new district policies that reference the financial operations. Recommendations from that review will be forthcoming. (Implementation date: November 2016)
4. Management will research the availability and cost for outside assistance to prepare a procedures manual. A recommendation for implementation will be presented for approval and further action. (Implementation date: September 2016)

OIA Work Performed

The Treasurer's Office has entered into an agreement with Rea & Associates, a full service accounting and business consulting firm, to identify the roles, responsibilities and objectives for each of these functions and the employees involved in these processes, develop a metric scorecard for the improvement of processes and as a means to manage performance, and provide recommendations to the current policies and procedures. Obtained the agreement and confirmed noted work is contained within the agreement.

Current Status: **Not Implemented**

Issue 4 – Employee certification and supervisor approval.

We found 21% (26 of 126) of the employees tested did not certify that their payroll submitted was complete and accurate (evidenced by signature or electronic approval). Furthermore, four

of the eight payroll processes (extended service, workshops, stipends, and athletic events) did not have the “employee certification” internal control built into the process. Rather a summary listing of the employees to be paid was completed by and approved by the supervisor. One payroll process uses the above indicated summary listing to process payroll, but the original timesheets are located within the home instruction office.

We also found that some employee time recorded in KRONOS for our sampled pay periods had not been approved by the employee’s supervisor, but was paid. These instances were as follows: 210 in pay period November 7, 2014; 596 in pay period February 27, 2015; and 576 in pay period April 10, 2015.

The District uses a “Negative Time Management” system for Teachers and Administrators, whereby payroll is loaded with 80 hours for each of these employees automatically when payroll generates. Adjustments to these 80 hours are made by exception (i.e. leave forms received, etc...). None of these individuals certify their time or have their supervisor approve that time. We found that several District policies did not contain specific information regarding the payroll process. Specifically, these policies did not address sick leave payouts, vacation leave accrual rates and accumulation limits, and compensatory time earning and usage.

Recommendation

5. The District should develop a process that will help to enhance payroll accuracy. As a part of this process, there should be procedures to verify employees are receiving pay for time they actually worked. This will help to make certain the pay employees are receiving has been properly approved and will increase the accuracy of the District’s payroll. Furthermore, these procedures will help to reduce the number of adjustments made by payroll staff and strengthen the payroll internal control environment.

Original Management Corrective Action Plan – Treasurer

For those employees being paid “by exception” management will determine and/or design a reporting and verification system to obtain employee certification of time worked. The goal will be to obtain such certification monthly for time paid the prior month. (Implementation date: September 2016)

OIA Work Performed

Payroll staff are obtaining employee signatures for all time included on timesheets for employees submitting time for extended service and workshops. **Home instruction** timesheets are not consistently submitted with pay summaries. **Stipends** paid to employees are not normally supported by employee signatures attesting that the activity was satisfactorily completed.

The District is currently using a “Negative Time Management” system for Teachers and Administrators, whereby payroll is loaded with 80 hours for each of these employees automatically when payroll generates. Adjustments to these 80 hours are made by exception

(i.e. leave forms received, etc...). None of these individuals certify their time or have their supervisor approve that time.

Current Status: Not Implemented

Issue 6 – Payroll and deduction schedule.

Employee benefits are paid to separated employees for up to 120 days for stretch pay employees and up to 60 days for regular pay employees who separate from the District. Based on what other large government employers in Franklin County have in place regarding benefits provided to separated employees, it appears the District is providing benefits that differ from sound business practices.

We selected a sample of 40 employees who were retired in FY15 and were paid 26 times throughout the year. These employees received pharmacy and medical benefits for 60 days from the day they separated from the District. These benefits amounted to the District paying \$13,815 for the pharmacy benefits and \$55,990 for the medical benefits.

Additionally, we selected a sample of 30 employees who retired on May 30, 2014. These employees received pharmacy and medical benefits for up to 120 days from the day they separated from the District depending if the employee selected to be paid by stretch pay. These benefits amounted to the District paying \$28,431 for the pharmacy benefits and \$205,347 for the medical benefits.

By continuing to provide pharmacy and medical benefits for the stretch pay employees for five pay periods after the employee separated from the District, the District is having to pay the employer share of the pharmacy and medical benefit premium for each of these pay periods. This amounted to \$59,306 for the stretch pay employees in our sample.

Finally, the District is assuming unneeded risk by insuring employees for the 60-day or 120-day time periods. If something would happen to the ex-employees or their dependents during this time frame, the District would be bound to pay for the pharmacy and medical claims made.

Recommendation

8. The Payroll Department should consider changes to the Payroll and Deduction Schedule to align their benefit premium collection process with sound business practices. Alignment with these practices will have the District's benefit premiums being collected for the current month in the pay periods paid during that month, thereby enabling the District to discontinue benefits for separated employees on the last day of the month that includes their last day of employment with the District. In addition, the Payroll Department should consider paying any "earned" wages to employees in the payroll that includes the separated employee's last pay. This alignment with sound business practices as they relate to the termination of separated employee benefits will save the District significant funds (approximately \$363,000 from our sample of 70 employees).

Original Management Corrective Action Plan – Treasurer

Management will explore making changes to the deduction schedule and the determination of benefit eligibility based on best practices, practices of like entities, collective bargaining agreements, and system capabilities. (Implementation date: August 1, 2017)

OIA Work Performed

Employer deductions for Medical, Dental, Vision, and Life paid on behalf of employees after they left employment with the District totaled \$272,821. These deductions were for stretch pay employees who are typically paid thru August 2017 and had benefits thru September 2017. Medical and Pharmacy claims paid on behalf of these same employees after they left employment for the same time frames as listed above totaled \$717,612.

The total amount of District funds used to pay these additional benefits was \$990,433.

Current Status: **Not Implemented**

Issue 8 – Benefit claims reconciliation.

No reconciliation is performed on the medical and pharmacy claim reports to ensure only claims for eligible employees are paid.

Recommendation

10. Some type of electronic analysis should be performed on the claim reports to ensure that claims paid are only for eligible employees. This will help to ensure the benefit providers are only invoicing the District for legitimate claims paid.

Original Management Corrective Action Plan – Senior Executive Administrator, HR

Implement the recommendation as outlined:

IT targeted completion implementation date is December 31, 2016;
Benefits reconciliation implementation date is March 30, 2017

OIA Work Performed

In the late spring and early summer of 2017, Benefits staff were performing a reconciliation of paid claims with eligible employees.

Month of claims	To review	Valid	Ineligible	Total	% ineligible
3/31/17	468	1840	53	2361	2.80%
4/30/17	412	1288	22	1722	1.68%
5/31/17	1402	901	49	2352	5.16%
6/30/17	1549	862	130	2541	13.10%

Note - % eligible determined by taking ineligible and dividing by (valid + ineligible)

Currently, there is no reconciliation process in place to match claims paid with eligible employees.

Current Status: Not Implemented

Issue 12 – Overpayments.

The Payroll Department staff does not maintain an all-inclusive list of employee overpayments with the reason for the overpayment, total amount overpaid, terms of repayment, payments received, and balance due. However, they do have a list of employees repaying the District as a result of the gainshare.

Recommendation

17. 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.

Original Management Corrective Action Plan – Treasurer

Management will develop both a mechanism to capture this information and for reporting as recommended. (Implementation date: May 2016)

OIA Work Performed

The Payroll Department staff maintains a listing of the individuals for which they are responsible who owe the District money and are not current employees. As payments are made, the payroll staff updates the listing.

There is no comprehensive list of overpayments made by the District, collection terms, amounts collected, outstanding amounts, aging schedule. Additionally, there is no root cause analysis that will help to identify the cause of the overpayment and possible training sessions that could help to prevent future problems

Current Status: Not Implemented