

November
2015

Internal Audit of the Payroll Department

*for the Fort Bend Independent
School District*

PREPARED AND SUBMITTED BY:

GIBSON
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Executive Summary

Gibson Consulting Group, Inc. (Gibson) was engaged to conduct an internal audit of the Payroll Department for the Fort Bend Independent School District (FBISD/District). The scope of this audit involved the process of paying employees after they have been hired. The audit did not include functions typically associated with Human Resources (e.g., recruiting, on-boarding, compensation negotiations, etc.) The audit objectives for this audit are as follows:

- Determine whether policies and procedures have been established for the payroll function and whether those policies and procedures are being followed.
- Determine whether appropriate internal controls are in place for all payroll processes.
- Determine whether employees are being paid accurately and timely as well as whether adequate documentation is retained to support all employee compensation payments.
- Determine whether employees involved in the payroll function are properly supervised.
- Determine whether the payroll process is efficient and maximizes the use of technology.

This report presents the findings of the audit along with recommendations to improve the payroll process.

The audit involved interviews with all members of the Payroll Department. The audit team also interviewed the Superintendent, the Chief Financial Officer, the Director of Business Information Systems, the Total Rewards Group within Human Resources and other members of the Human Resources Department. Appendix A contains the complete interview roster.

The audit also involved data analytics and testing of transactions to ensure compliance with Board policies, administrative regulations, and District operating procedures. The audit took place from March 2015 to July 2015.

Recommendations

Through interviews conducted and data analytics and transaction testing performed, the audit team found areas needing improvement. Table 1 includes a summary of the recommendations identified through the audit.

Table 1. Summary of Recommendations

No.	Recommendation
1	Discontinue the use of the term salary advance and change local board policy and administrative practice to allow for accelerated out of cycle payments to first year teachers.
2	Implement additional controls over accelerated off cycle payments.
3	Review and revise timing of tax deposits to comply with the Internal Revenue Service requirements.
4	Re-align the organization of the Payroll Department and Total Rewards group.
5	Re-align processing of payments to all substitutes under the Payroll Department.
6	Consider automating the submission of extra duty pay requests.
7	Ensure that testing of newly developed automated payroll data change processes are complete, documented and approved.
8	Remove unnecessary access to “Correct History Mode” within Oracle PeopleSoft.
9	Review employees’ access to Payline within Oracle PeopleSoft and remove as needed.
10	Implement procedures to electronically capture hours worked by employees.
11	Implement performance measures to monitor efficiency.
12	Require direct deposit for all employees.

The remainder of this report presents detailed findings and supporting information related to each recommendation. It is organized into the following sections:

Background

Department Organization

Testing Methodology

A. Payroll Process Overview

B. Audit Testing Results

C. Finding and Recommendations

Background

Financial and System Overview

Payroll represents the largest of school District operating expenditures. At FBISD, payroll expenditures, which include supplemental pay and employee benefits, represents 82 percent of District operating expenditures. Table 2 presents payroll expenditures and employee count for the District over the past five fiscal years. Payroll expenditures have declined in absolute terms as well as a percentage of total operating expenditures¹ during this timeframe.

Table 2. District Payroll Expenditures and Employee Count, FY 2010 – FY 2014

Payroll Expenditure	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014
6112 WAGES FOR SUB TEACHERS /OTHERS	\$4,667,204	\$4,476,312	\$4,263,574	\$5,390,946	\$6,125,479
6119 WAGES TEACHERS & PROFESSIONALS	\$319,758,969	\$305,266,153	\$283,913,554	\$291,318,265	\$308,355,738
6121 OVERTIME PAY SUPPORT PERSONNEL	\$2,470,315	\$2,537,284	\$2,500,121	\$2,734,668	\$3,300,671
6129 WAGES FOR SUPPORT PERSONNEL	\$67,618,519	\$64,668,713	\$62,289,886	\$64,485,829	\$67,969,981
6139 EMPLOYEE ALLOWANCES	\$113,932	\$114,666	\$101,048	\$105,559	\$31,684
6141 SOCIAL SECURITY/MEDICARE	\$5,191,469	\$5,047,711	\$4,693,805	\$4,763,554	\$5,153,051
6142 GROUP HEALTH & LIFE INSURANCE	\$28,333,877	\$26,930,531	\$37,966,290	\$33,212,876	\$33,944,259
6143 WORKERS' COMPENSATION	\$3,413,370	\$5,305,362	\$4,184,680	\$1,706,977	\$1,630,932
6144 TRS ON BEHALF PAYMENTS	\$23,598,917	\$23,389,158	\$21,573,511	\$20,543,282	\$23,538,071
6145 UNEMPLOYMENT COMPENSATION	\$314,078	\$1,194,030	\$886,745	\$904,333	\$952,768
6146 TEACHER RETIREMENT/TRS CARE	\$8,947,346	\$7,584,263	\$5,732,086	\$8,582,462	\$7,835,430
6149 EMPLOYEE BENEFITS	\$644,967	\$5,201,642	\$2,367,151	\$399,765	\$306,905
Total Payroll Expenditures	\$465,072,963	\$451,715,825	\$430,472,451	\$434,148,516	\$459,144,969
Percentage of Total Operating Expenditures	83%	83%	82%	83%	82%
Employee Count	9,042	8,450	7,899	7,943	8,097

Source: TASBO eFACTS+

Below are observations relating to Fort Bend ISD payroll expenditure trends. Overall, employee counts and related payroll expenditures declined in FY 2011 and FY 2012 due to declines in state funding. As funding was restored, the District experienced increases in staff counts and payroll, but not to the levels of five years ago. Other trends related to specific account codes are described below:

- Substitute expenditures increased 44 percent over the past two years. According to district management this increase was due to various factors, including the movement of temporary employees to substitute positions, allowing certain aide positions to use substitutes, and the elimination two years ago of a campus award program to control substitute costs.

¹ Operating expenditures include object codes 6100-6500 for all funds.

- Group Health and Insurance costs increased in FY 2012 due to a one-time health insurance charge for additional premiums. This was needed as the health insurance fund had a deficit at the end of FY 2011.
- A decrease in the workers' compensation rate in FY 2013 caused the decrease in these expenditures. In addition, during this time the Safety Manager increased communication and training to ensure departments and campuses were practicing better safety.
- Employee Benefits decreased in FY 2013 due to the end of the District Awards for Teacher Excellence (DATE) grant.

The District uses Oracle PeopleSoft ("PeopleSoft") as their payroll processing system. PeopleSoft is used to capture payment records for all employees, including substitutes. PeopleSoft also facilitates issuances of direct deposits and payroll checks.

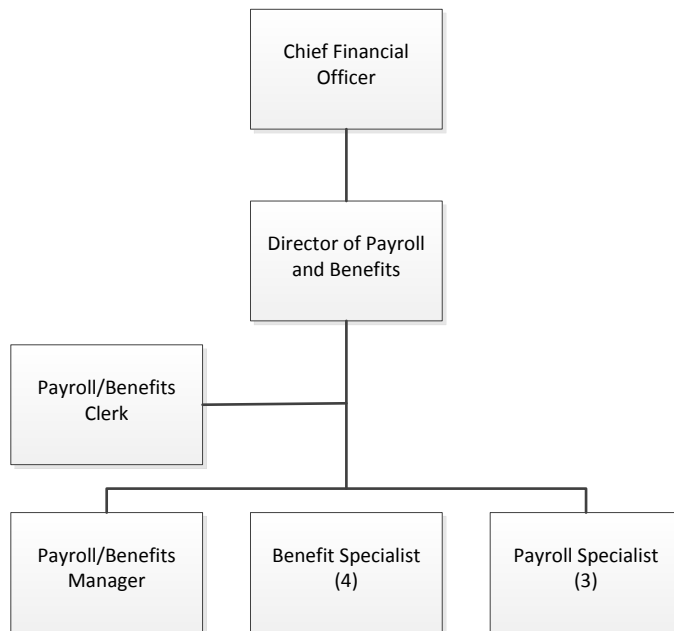
The District also uses Aesop as their substitute placement and absence management service. Substitute and absence records from Aesop are uploaded into PeopleSoft at the beginning of the semi-monthly payroll process. This information is used to determine payment to substitutes as well as tracking of leave for district employees.

Department Organization

Payroll Department

The District's Payroll Department includes ten positions. As of the timing of interviews, the Payroll/Benefits Clerk position and one of the Payroll Specialist positions were vacant. The Payroll Department reports to the Chief Financial Officer (CFO). The Director of Payroll and Benefits oversees the department and ensures that payroll is processed timely and accurately. The Payroll/Benefits Manager processes wage garnishments, voluntary deductions, and assists the Director of Payroll and Benefits. The Benefits Specialists are responsible for benefits enrollment for new employees and processing any changes to benefits for employees. They are also responsible for payments to third party benefits vendors. Payroll Specialist 1 is in charge of hourly employee hours and processing W-4's for new employees. Payroll Specialist 2 processes all direct deposit enrollments and processing and printing off-cycle payroll checks. The department has seen low turnover, collectively, the group has over 30 years of payroll experience with FBISD. Figure 1 displays the organizational structure of the Payroll Department. The audit team interviewed all members of the Payroll Department.

Figure 1. Payroll Department



Source: Fort Bend ISD Payroll Department

The Payroll Department's payroll expenditures account for less than 1% of the total District payroll expenditures, as shown in Table 3. The increases in payroll have been due to pay increases over time.

Table 3. Payroll Department Payroll Expenditures, FY 2011 – FY 2014²

Expenditure	FY 2011	FY 2012	FY 2013	FY 2014
6100 Payroll Cost	\$ 366,159	\$ 406,641	\$ 451,464	\$ 481,244

Source: Oracle PeopleSoft general ledger

Total Rewards – Human Resources

While the Payroll Department handles certain aspects of processing payroll, other aspects relating to accuracy of payments and adjustments to pay checks are handled in the Human Resource Department.

The Human Resource Department has five groups, the Total Rewards group, the Talent Operations group, the Talent Management group, the Talent Experience group and the Talent Acquisition group. All these groups report to the Chief Human Resources Officer.

The Total Rewards group was created in the past year to specifically handle compensation for District employees. The Total Rewards group includes six Total Rewards Advisors who are responsible for processing employee PeopleSoft data changes. Each Total Rewards Advisor is responsible for their assigned employees, based on alphabetic assignment. The advisors also answer any employee questions related to pay, and adjust employee paychecks for changes in compensation, as needed. For example, if an employee changes position, the Total Rewards Advisor assigned to that employee would process the change in PeopleSoft, after the Talent Operations group has approved the change. In order to process the change, the Total Rewards Advisor would calculate the impact on salary and make adjustments to future compensation as well as the paycheck that would be affected by the change. The Total Rewards Advisors process all changes affecting compensation. Additional examples include terminations, changes in salary, changes to stipends, and extra duty pay.

The Total Rewards Consultants are responsible for salary reviews, salary benchmarking, job descriptions, salary calculations and they also assist the Total Rewards Advisors should any questions arise.

The Total Rewards Director joined the Total Rewards Department in December 2013 and assumed responsibility of the six PeopleSoft Advisors in October 2014. Four of the Total Rewards Advisors were also hired within the past year.

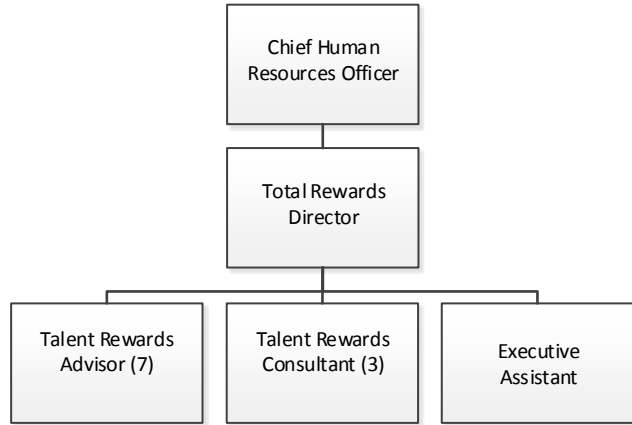
The Total Rewards group also includes three Total Reward Advisors for salary calculations. They are responsible for making salary recommendations for new hires and preparing salary worksheets for consultations during the HR Onboarding Experience. Figure 2 displays the current structure of the Total Rewards group within the Human Resource Department.

In addition to the Total Rewards group, the Substitute Office also has tasks that affect payroll processing. Specifically, the Substitute Office is comprised of two Human Resource Advisors who are under the Talent Acquisition group within the Human Resource Department. These Human Resource Advisors are overseen by the Assistant Director over the Talent Acquisition group. The Substitute Office is responsible for all

² Only Payroll Expenditures are shown for this department as the expenditures for object codes 6200-6400 roll into the Business & Finance budget.

Human Resource and Payroll aspects relating to substitutes. Specifically, the Substitute office conducts on-boarding procedures for all substitutes and initiates payments to substitutes by reviewing Aesop reports and making changes in PeopleSoft as necessary to ensure proper payment to all substitutes.

Figure 2. Total Rewards – Human Resources



Source: Fort Bend ISD Human Resources Department

Testing Methodology

Gibson’s testing strategy contained two main elements: data analytics and sample testing of individual transactions and process controls. Data analytics encompassed a review of an entire population of transactional data to detect any anomalies that would indicate non-compliance with policies and procedures, lack of controls, and inefficiencies in processes.

Sample testing of transactions focuses on a subset of the transactional data population. During testing, Gibson corroborated each aspect of the selected transaction through the review of all documentation retained for the transaction. The selection of samples for testing was based on experienced auditor judgment and was driven by information gained during interviews and data analytics.

Based on the timing of this audit, the payroll transactions tested occurred between July 1, 2013 to June 30, 2014 (FY 2014) and July 1, 2014 to January 31, 2015 (FY 2015 YTD). This will be referred to as the “audit period” for purposes of this report.

Sections A through C of this report elaborate on the payroll processes, data analytics, transaction testing, as well as audit findings and recommendations. The findings outlined do not always result in a recommendation; however, they are outlined as findings to highlight their importance in the process. Table 4 provides a high level summary of the transaction testing that was executed for this audit.

Table 4. Transaction Testing Summary

Test No.	Sample Size	Test Overview
Test 1: Hourly employee payroll payments	14	Audit of payroll payments to hourly employees. Each selected payment was validated by tracing back to Board approved pay schedules as well as employee time sheets. All types of pay (including extra duty pay), as well as pay adjustments due to leave taken, were tested as part of this test.
Test 2: Salary employee payroll payments (Exempt & Non-Exempt)	17	Audit of payroll payments to salaried employees. Each selected payment was validated by tracing back to Board approved pay schedules and supporting documentation. All types of pay (including extra duty pay), as well as pay adjustments due to leave taken, were tested as part of this test.
Test 3: Substitute employee payroll payments	15	Audit of payroll payments to substitutes. Each selected payment was validated by tracing back to approved documentation for days worked and rates being paid.
Test 4: Payroll deductions	5	Audit of payroll deductions for employees. Each deduction for the selected employee was validated by tracing back to supporting documentation.
Test 5: Accelerated off cycle payments	7	Audit of accelerated off cycle payments made to new District teachers to ensure the amounts were earned and that the teachers actually came to work.
Test 6: Exiting employees final payroll payments	9	Audit of exiting employees' final paycheck. Each selected payment was traced back to supporting documentation to validate accuracy and timeliness of final payment. All types of pay (including extra duty pay), as well as pay adjustments due to leave taken, were tested as part of this test.

A. Payroll Process Overview

All District employees are paid in accordance with administrative guidelines and Board approved pay structures. Employees are paid over 12 months. Salaried employees are paid equal semi-monthly payments. Hourly employees are paid only for the hours worked. The Payroll Department publishes a payroll calendar outlining the 24 pay dates for the fiscal year and the corresponding pay period for each payment. Employees are classified as exempt or non-exempt as per the Fair Labor Standards Act, for purposes of overtime. Supervisors for non-exempt employees are responsible for monitoring the volume of hours worked. The following sections outline further details for each category of employees.

Non – Exempt Employees (Hourly)

Non – exempt hourly employees include bus drivers, cafeteria workers, custodians, maintenance workers, and crossing guards, etc. A total of 2,670 non-exempt hourly employees were paid during the audit period. 2,577 of these employees log their hours in the time and attendance software, Kronos. These employees use biometric identification to clock in and out through Kronos terminals. Leave time can be entered into Kronos by their supervisor. At the completion of a work week, the employees' supervisor electronically signs off on all weekly timesheets to indicate their approval. At the end of the pay period, once all time has been entered and approved, the Payroll Specialist runs reports from Kronos that will include the total hours worked during the pay period for all employees. These reports are saved on a secure drive and uploaded into PeopleSoft by the Director of Talent Operations. The Payroll Specialist then reconciles the total hours by type (e.g., regular, holiday, overtime, etc.) from the Kronos reports to the totals within PeopleSoft to ensure that all information was appropriately uploaded.

The remaining 93 non-exempt hourly employees complete manual timecards. The employees' supervisor signs the weekly timecards to indicate their approval and the timecards are sent to the Payroll office. Once received, the Payroll Specialist manually enters the hours for each employee into Rapid Time within PeopleSoft. These non-exempt hourly employees primarily consist of Crossing Guards.

Pay rates for all non-exempt hourly employees are maintained within PeopleSoft, with overtime (e.g., hours worked over 40 per week) paid at time and a half. These rates are established by the Board approved Pay Structure. This pay structure was last reviewed and approved by the Board on April 7, 2014, as indicated by the Board meeting minutes.

Non – Exempt Employees (Salaried)

Non-exempt salaried employees are mainly comprised of Paraprofessionals and include positions such as assistants, aides, receptionists, and specialists. A total of 1,766 non-exempt salaried employees were paid during the audit period. All non-exempt salaried employees' complete manual timesheets for each pay period that show the time clocked in and out for each day. These timesheets are signed by the employees' supervisor to indicate their approval. Non-exempt salaried employees work 37.5 hour weeks. All hours over 37.5 are accrued as compensatory time. Compensatory time may be used as time off, but must be

used within the duty year in which it was earned. Payment must be issued for compensatory time accrued above 60 hours. Weekly hours worked above 37.5 but less than 40 are paid at the employees' regular rate, and hours worked above 40 are paid at time and a half. According to Policy DEA (local), employees cannot have a compensatory balance greater than 60.

If an employee has any unused compensatory time remaining at the end of a fiscal year, the employee shall receive overtime pay. The employee's supervisor has the responsibility to track and monitor compensatory time and request payment when needed (i.e. when more than 60 hours of compensatory time has been accrued).

To request payment, the employee's supervisor must complete a "Request for Supplemental Pay" form that includes the hours worked, the hourly rate, and the total amount of the payout for each employee receiving a compensatory time payout. This form is approved by the department's Director. All request for supplemental pay forms are submitted to the Total Rewards Advisors to create additional pay for each employee within PeopleSoft.

These non-exempt salaried employees' annual salary is established by the Board approved Professional Pay Structure. This pay structure was last reviewed and approved by the Board on April 7, 2014, as indicated by the Board meeting minutes.

Exempt Employees (Salaried)

Exempt salaried employees include positions such as teachers, principals, and administrative directors. There were 6,382 exempt salaried employees paid during the audit period. Exempt salaried employees do not record hours worked and receive an annual salary established by the Board approved Professional Pay Structure and Teacher Pay Scale. If a salaried employee leaves the District before last day of instruction, a final payment for wages actually earned is made. These pay structures were last reviewed and approved by the Board on April 7, 2014, as indicated by the Board meeting minutes.

All teachers new to the District were eligible to receive what the district termed a salary "advance" in the amount of \$1,800 at the end of August, after they start work, but before their first paycheck would normally have been issued (in mid-September). This accelerated payment aides the District in their recruiting efforts of teachers and it helps ensure that when teachers transition from another district, they do not have a gap in their monthly pay. The \$1,800 was characterized by FBISD as an "advance" of the teachers' annual gross salary and was to be recouped at a rate of \$75 per pay cycle, over the 24 pay periods.

Substitutes

A total of 1,324 substitutes were paid during the audit period. This includes all substitutes, including substitutes for non-teacher positions. Teachers enter their absences in the substitute placement and absence management system, Aesop. At that time, substitutes search for available assignments through the system or by calling the HR sub office. Aesop can also call and assign a substitute based on rules established by the District. When the substitute arrives at the campus they manually enter their

information in a sign-in sheet. The verifier (typically a campus Secretary), will verify all absences within Aesop by reconciling against the sign-in sheets. Four days prior to the first calculation of the payroll run the Substitute Office reviews the system records within Aesop to ensure that all absences have been verified. Upon complete verification, the Substitute Office runs a report from Aesop and saves it in a secured drive. The Director of Talent Operations then uploads this report into PeopleSoft. At this time the Substitute Office manually reconciles these records to the Aesop report, to ensure the correct rate and number of days for each substitute is captured within the system.

Substitutes for administrative positions are called when needed by the campus, they are not requested through Aesop. The Substitute Office maintains a list of administrative position substitutes that is sent out to campuses every two weeks. When an administrative substitute is called, the substitute logs hours on a manual timesheet and the timesheet is sent to the Substitute Office for payment. The Substitute Office will then add the substitute into PeopleSoft (if the substitute is not already in the system) and create an additional pay record for the substitute to be paid.

Substitute pay rates are established by the Board and outlined in the Substitute/Supplemental Pay Salary Schedule. This schedule was last reviewed and approved by the Board on May 20, 2013, as indicated by the Board meeting minutes. These rates are shown in Table 5.

Table 5. Substitute Pay Rates

Substitute	Full Day Rate
Non Degreed Teacher	\$85.00
Degreed Teacher	\$95.00
Degreed Teacher (> 10 days)	\$120.00
Degreed Teacher (>30 days)	\$160.00
Administrator – MS or ES Principal	\$410.00
Administrator – HS Principal	\$500.00
Administrator – Asst. Principal (all levels)	\$370.00

Source: Board approved Substitute/Supplemental Pay Salary Schedule

The full day rate is paid when a substitute teacher works more than four (4) hours. If less than four (4) hours are worked, only half of the rate is paid. The first long-term rate takes effect on the 11th consecutive day of the same assignment for degreed teacher substitutes. The second long-term rate takes effect on the 30th consecutive day for degreed teacher substitutes. Administrator substitute is paid a daily rate consecutively beginning on the first day of their assignment.

Extra Duty Pay

Extra duty pay relates to pay for additional work, outside of an individual's job description. Examples could include summer school, tutoring, coaching, or working the gate at a football game. There are a number of tasks that could be considered extra duty and paid as such. The District offers annual extra duty stipends for certain categories, such as academic, athletics, fine arts, etc. Each year the stipend roster is approved

by the Board. The stipend roster outlines the types of stipends that can be paid for the year, the amount for each stipend and also outlines the limits on the number of individuals who can receive the stipend. Annual stipends are assigned to the employee at the beginning of the fiscal year and are paid over the 24 pay periods.

Extra duty payments not paid through stipends are paid through “Supplemental Pay.” This term refers to payments above and beyond an employee’s regular compensation. These extra duty payments are typically based on hours worked and are processed through the “Create Additional Pay” function of PeopleSoft. The District maintains a Supplemental Pay roster that outlines the categories of extra duty and the associated rates. The categories include athletic event support, exam proctor, tutor, etc.

To process supplemental pay, the campus/department must request the payment using the Excel template form, “Request for Supplemental Pay.” The form is populated to include all employees receiving supplemental pay, the type of pay, hours and rate associated with the work (as per the supplemental pay roster) and the associated budget code. These forms are sent to the Total Rewards advisor who is in charge of supplemental pay. The Total Rewards advisor will review all the sheets for accuracy (e.g., appropriate supplemental codes, rates, employee IDs, etc.). The Total Rewards advisor will then compile all spreadsheets into one file for upload into PeopleSoft. This is done manually by copying and pasting the information from the requests received from all campuses/departments to a new template for upload. After all requests are compiled, the Total Rewards advisor works with the Business and Finance office to ensure that all the budget codes are appropriate and that there are sufficient funds for the extra duty to be paid. Prior to submitting to the Total Rewards group, the campus/department has to encumber the funds for the extra duty pay.

Throughout this process, the Total Rewards advisor is also working with the requesting campus/department on any questions that may arise during the review and processing of the supplemental pay request. Once all questions are answered and the information is fully compiled into one consolidated spreadsheet, it is uploaded and an additional pay record is created. This process occurs prior to the first payroll calculation (described below), after the first payroll calculation, the Total Rewards advisor reconciles the supplemental pay information shown in PeopleSoft back to the compiled spreadsheet to ensure it was completely uploaded.

Payroll Processing

Once employee payroll changes, employee hours, and extra duty for the pay period have been entered into PeopleSoft, the Director of Payroll and Benefits notifies all members of the Payroll Department, the Substitute Office, and the Total Rewards group that the first payroll calculation will be executed. The payroll calculation is essentially a series of PeopleSoft processes that will create a payroll register for each of the 9 pay groups in PeopleSoft. The pay groups in PeopleSoft are defined as follows:

- H19: Non-year round hourly employees
- H24: Year round hourly employees
- SUB: Substitutes

- PTT: Part time hourly
- TEA: Teachers
- NTE: New Teachers
- PAR: Paraprofessionals
- EDU: Principals, Chiefs, and Directors
- ADM: Administrators (Directors and Managers)

The timing of the first calculation is based on the published annual payroll calendar. The payroll calendar outlines all the 24 pay dates for the year, along with the first payroll calculation date and the confirmation date. The confirmation date is the date by which the payroll register must be finalized for checks and direct deposits to be issued by the pay date.

After the first calculation is executed, the Director of Payroll and Benefits notifies all members of the Payroll Department, the Substitute Office, and the Total Rewards group to review the payroll register for all their respective employees (for whom they entered pay information before the first calculation) and validate that the pay is accurate based on the information that was entered. This part of the process is to ensure that the payments for that month for those employees with changes are correct.

To facilitate this review, the Total Rewards group uses reports outlining exceptions in employee's pay. The following is a list of the reports used for exception review:

- Two Check Report: Report that lists any employees with a check for a different amount than their previous check.
- Over-limit Report: Report that lists all employees with a check over an established limit.
- Substitute Money Report: Report that lists all employees receiving pay under the substitute earn code on a non-substitute paycheck.
- Zero Gross Dollar Check Report: Report that lists employees with a check generated for zero gross dollars.
- Zero Net Dollar Check Report: Report that lists employees with a check generated for zero net dollars.
- Dock Report: Report that lists employees who overused leave days and should be docked for pay.

After the first payroll calculation, the Total Rewards advisors use these reports to facilitate their review for their assigned employees. The review is to ensure that any errors are detected before the payroll is finalized. If the Total Rewards advisors detect any errors, they can make adjustments.

In order to capture all adjustments and any other extra duty pay, employee changes, terminations, etc., additional payroll calculations are run up to the confirmation date. The additional calculations are needed as all payroll data changes are not entered by the time that the first payroll calculation is executed.

After any additional changes are entered and the additional payroll calculations are executed, the payroll register is confirmed and the checks and direct deposits may be issued. The Director of Payroll and Benefits submits the positive pay file to the bank and prints any hard copy checks. The positive pay file lists all the checks issued and to which employee.

Off – Cycle Payments

Off–Cycle Payments are those that are made outside of the established semi-monthly payroll process. Off-cycle payments are needed for a number of reasons, such as missed extra duty payments, accelerated payments to a new employee, or a correction to a previously issued payment. All the off-cycle payments are processed by the Payroll Specialist 2. Off-cycle checks are typically requested by the Total Rewards group. When an off-cycle payment is needed, a hard copy “Off-Cycle Check Request” form is completed and all supporting documents (e.g., calculation worksheets) are attached. The form outlines the reason for the off–cycle payment. After the off-cycle payment is approved by the Total Rewards Director, the Payroll Specialist processes the request within PeopleSoft and a check is printed.

Absence Management

Employee absences are recorded through Kronos for hourly employees and through Aesop for salaried employees (exempt and non-exempt).

Hourly employees report absences as part of their weekly timesheets which are reviewed by their supervisors. The time taken off would be uploaded by the Director of Talent Operations to PeopleSoft semi-monthly as part of the upload of hourly employees’ timesheets.

Teachers record absences in Aesop through request of a substitute. When a teacher requests a substitute, Aesop will log the requesting teacher as absent.

All other employees must also log their absence in Aesop. At the campus/department level, employees are required to submit an Employee Request for Absence Form to their supervisor prior to taking planned time off.

The semi-monthly upload of Aesop information to PeopleSoft by the Director of Total Operations updates absences and leave records for all salaried employees.

During interviews Gibson learned that the Human Resources Department recently completed a massive leave balance reconciliation that spanned years. This was needed due to inaccurate leave beginning balances after the implementation of PeopleSoft in 2007. The reconciliation process involved recalculating leave balances for all employees through review of PeopleSoft, Aesop, and the previous substitute calling system. After the leave balance was recalculated for each employee, an email was sent to the employee as confirmation/validation of the updated leave records. As of the timing of this audit, the reconciliation of leave records is in progress. During the focus group, Gibson did not receive any negative feedback regarding leave balances. All employees confirmed to have received their confirmation balance and agreed with it.

B. Audit Testing Results

Transaction Testing Results

Gibson reviewed the detailed pay register reports for the entire audit period and selected individual employee monthly gross wages to test. The pay register report was reviewed in its entirety for anomalies. This review facilitated the selection of individual payments for testing. Refer to Appendix B for further details of the testing procedures as well as results from testing. In addition to the results from testing procedures, Appendix B also includes general observations about the transactions. The general observations are meant to highlight further areas of improvement.

Data Analytics

In addition to sample transaction testing, Gibson performed the data analytics outlined below. This section outlines details of the analytic and information reviewed. Refer to the Findings and Recommendations section for additional discussion on findings from these analytical procedures.

Analytic 1 – Payroll Calculations: During interviews, Gibson learned that there are instances when the first payroll calculation is initiated late relative to the payroll processing schedule. To quantify, Gibson obtained the PeopleSoft Payroll calculation logs and compared the dates that the first calculation was executed to the dates on the published payroll calendar. This was done for the 14 most recent payroll cycles. Table 6 below outlines the results of that comparison as well as the number of payroll calculations needed to finalize payroll. As indicated in Table 6, 13 out of 14 payroll runs were initiated late.

Table 6. Summary of Payroll Calculation Dates

Pay Date	First Calculation Date – Calendar	First Calculation Date - Calculation Logs	No. of Payroll Calculations
7/15/2014	7/7/2014	7/8/2014	9
7/31/2014	7/23/2014	7/24/2014	12
8/15/2014	8/6/2014	8/8/2014	10
8/29/2014	8/21/2014	8/25/2014	9
9/15/2014	9/5/2014	9/9/2014	11
9/30/2014	9/19/2014	9/22/2014	13
10/15/2014	10/7/2014	10/8/2014	13
10/31/2014	10/22/2014	10/23/2014	12
11/14/2014	11/5/2014	11/6/2014	11
11/28/2014	11/17/2014	11/17/2014	11
12/15/2014	12/3/2014	12/4/2014	10
12/31/2014	12/12/2014	12/15/2014	10
1/15/2015	1/7/2015	1/8/2015	10
1/30/2015	1/22/2015	1/23/2015	10

Source: Administrative Pay End Schedule and PeopleSoft Payroll Calculation Logs

Analytic 2 – Overtime Analysis: The audit team reviewed the volume of overtime hours by position for all hourly employees. This analysis looked for unusual trends in overtime hours. This is important as it could indicate possible timesheet processing errors or areas where management may need to assess volume of overtime for reasonableness. Table 7 outlines the \$3,139,454 of overtime broken down by department and the associated headcount in each department. From this analysis, the audit team noted that Facilities/ Operations and Maintenance accounts for the largest portion of the overtime paid out during the audit period (66% combined). In addition, after analyzing overtime pay by employee, it was noted that 183 out of 1,097 (17%) employees received overtime pay that accounted for over 10% of their total wages. The overtime pay for these employees totaled \$2 million, or 33% of their total wages of \$6 million.

Table 7. Overtime Dollars by Department

Department	Head Count	Overtime Pay	Percentage of Total Overtime	Total Pay	Percentage of Overtime Pay to Total Pay
FACILITIES/ OPERATIONS	447	\$1,203,149	38%	\$17,815,025	7%
FACILITIES/ MAINTENANCE	132	\$887,533	28%	\$7,675,676	12%
TRANSPORTATION	399	\$868,432	28%	\$13,797,005	6%
POLICE	16	\$92,624	3%	\$752,166	12%
CHILD NUTRITION	28	\$47,882	2%	\$892,418	5%
PURCHASING & MATERIALS MGMT	12	\$17,632	1%	\$539,729	3%
OTHER	63	\$8,207	0%	\$1,559,605	1%
Total	1,097	\$3,139,459	100%	\$43,031,624	

Source: Detailed overtime report for the July 2013 to January 2015 payroll months

Analytic 3 – Off Cycle Payments: In this analytic, the audit team quantified the volume of off-cycle checks. A high volume of off cycle payments can be indicative of a process that is not fully capturing all needed employee payments through the published payroll calendar. The audit team reviewed a listing of all off-cycle payments made during the audit period. While off-cycle payments are not necessarily a negative concept, it is important to understand the volume of off-cycle checks and the reasons why they are needed. Gibson reviewed the listing and eliminated those payments that were needed due to direct deposit account closures, as account closures are not something the payroll department would know of until a direct deposit payment is not cleared. From that list, the audit team quantified the volume of off – cycle payments that were issued during the audit period. A total of 2,097 off - cycle payments were made during the audit period. This averages to 110 payments per month (55 per pay period) from July 2013 to January 2015.

C. Findings and Recommendations

This section of the report outlines the audit team's findings and recommendations resulting from interviews and audit procedures. This section should be read in conjunction with the transaction testing results and general observations outlined in Table 8.

Findings

Finding 1³: Overpayments to employees exist. Through testing of employee payments, interviews with District staff and review of off-cycle check listings, Gibson noted that employee overpayments exist and that they are due primarily to (1) delays in receiving information and (2) the overuse of leave. As overpayments are detected, the Total Rewards Advisors notify the employee of the overpayment and walk them through how their paychecks will be adjusted going forward to account for the over payment. If the employee is no longer with the District, notification is sent to the Business & Finance office. The Business & Finance Department will draft and mail a certified letter to the employee requesting that the funds be repaid.

Gibson reviewed the list of overpayments maintained by the Business & Finance Office (as of February 2015), and noted that a total of 36 overpayments totaling \$86,159 were identified. Of those 36 payments, the District had successfully recovered 2 overpayments totaling \$8,000. However, for several of the remaining 34 overpayments, the employee never picked up the certified letter and/or the attempts to recover the funds had not been successful. In addition, through testing performed, Gibson identified an additional 9 overpayments (16% of total selections). 2 of these overpayments (22%), totaling \$4,965, were never recovered.

In addition to the list maintained by the Business & Finance Department, the listing of off-cycle checks maintained by the Total Rewards group outlined instances where an overpayment occurred, but it was reversed and a corrected check was issued.

Per review of these two listings, Gibson noted some causes of overpayments included:

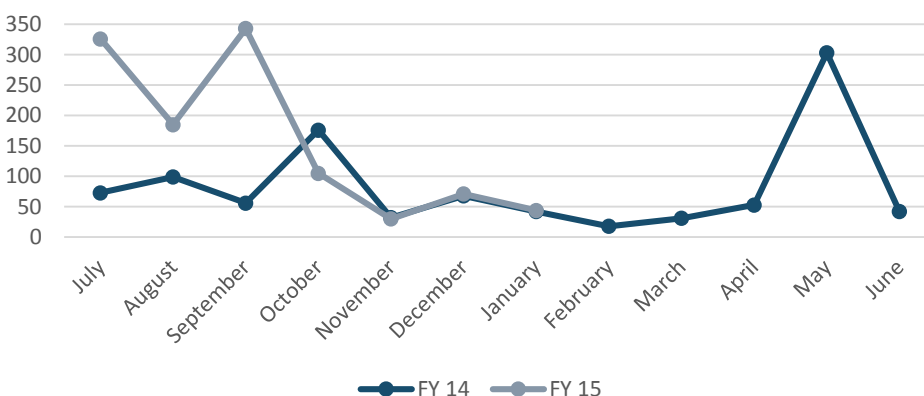
- Overused leave days
- Employees who were hired and on-boarded, but did not begin work with the District
- Employee being paid wrong rate for Personal State Leave pay out
- Employee who left the District, but the termination notification was not sent to Total Rewards on a timely basis
- Extra duty payment processed twice
- Employee was on leave and overpaid due to late receipt of leave of absence paperwork
- Incorrect manual calculations of employees' pay due to payroll changes

³ Recommendations 2 and 4 through 12 address this finding.

Finding 2³: The Payroll Department executes excessive calculations before finalizing payroll. As previously mentioned, the Payroll Department uses a payroll calendar outlining when the payroll process will begin (e.g., first payroll calculation) and by when it will be finalized (e.g., payroll confirmation). In order to finalize the payroll register, the calculation process is executed multiple times. Although payroll has historically been finalized on time, the initiation and first calculation process is typically started late. As noted in Analytic 1, for the past 14 payroll cycles, 13 cycles were initiated after the prescribed date. Additionally for those 14 payroll cycles, on average there are 11 calculation runs needed to finalize payroll. Gibson learned that these delayed starts, combined with the need for multiple runs, results in an inefficient process and causes strain in the timeline to finalize payroll. Based on interviews, Gibson learned that one of the root causes of the delayed starts and need for multiple calculation runs is due to payroll data change entries that need to be made into PeopleSoft, but are not entered timely. For example, in some instances such as terminations, the delay is due to late reporting from the campus/department level.

Finding 3³: The District processes a large number of off-cycle payroll payments. During the audit period, the District processed 2,097 off-cycle payments (\$1.8 million). The need for off-cycle payments can range from closed direct deposit accounts, to correction of previously issued payments, to missed payments for extra duty. Processing and issuing off-cycle payments is the responsibility of the Payroll Specialist 2 and is that position's most time consuming task. Figure 3 outlines the volume of off cycle payments by month during the audit period.

Figure 3. Off-Cycle Payments by Month, FY 2014 and FY 2015 (YTD)⁴



Source: Listing of all "Off-cycle Checks and Reversals" during the audit period

The District issues a high number of off-cycle payments. This high volume is indicative of process ineffectiveness and inefficiency. In September 2014, the Total Rewards group began to track off cycle checks and the reasons why those were needed. Gibson reviewed the off-cycle check tracking file, noting various reasons. Below are some examples:

- Missed payment for various types of extra duty (e.g., Extended Day, Summer School)

³ Recommendations 2 and 4 through 12 address this finding.

⁴ Excludes off cycle payments issued due to closed direct deposit bank accounts.

- New hire with no contract set up in PeopleSoft
- Stipends missed in error
- Employee paid on incorrect salary schedule step
- Position change not processed timely

A common cause for some of these off cycle checks is information being sent from the campus/department level to the Talent Operations and Total Rewards groups for processing untimely. For example, as outlined in Finding 6, processing extra duty pay is a manually intensive process, both at the campus/department level and in the Total Rewards group. If a campus does not submit the supplemental pay worksheet before the payroll cutoff date, that payment will not be processed until the next payroll run. However, there are instances where the employee requests the pay, and an off-cycle payment will be issued.

Finding 4: The characterization of FBISD’s early payments to new teachers as an “advance” is inappropriate, and the approach to processing these payments does not comply with Board Local Policy.

Under normal payroll processes, FBISD pays new exempt employees their first paycheck in the month (September) following the first month of their contract period (August). However, as an incentive to work at the district, FBISD provides new teachers an option to receive a flat amount of \$1,800 at the end of August. This amount is reimbursed through deductions on future paychecks so that the total contract amount is not exceeded. This practice has been referred to by the district management as a “salary advance” and also as an “early paycheck.”

FBISD Board Policy DEA (Legal) specifically prohibits the payments of salary advances or loans to FBISD employees.

Policy DEA (Legal): COMPENSATION AND BENEFITS

SALARY ADVANCES AND LOANS: A district shall not lend its credit or gratuitously grant public money or things of value in aid of any individual, association, or corporation. *Tex. Const. Art. III, Sec. 52; Brazoria County v. Perry, 537 S.W.2d 89 (Tex. Civ. App.—Houston [1st Dist.] 1976, no writ)*

Board Policy DEA (Local) specifies how all salaried employees, including teachers, are to be paid.

Policy DEA (Local): COMPENSATION AND BENEFITS

ANNUALIZED SALARY: The District shall pay all salaried employees over 12 months in equal monthly or bimonthly installments, regardless of the number of months employed during the school year. Salaried employees hired during the school year shall be paid in accordance with administrative regulations.

The 2015-16 District Employee Manual prescribes a different payment structure for salaried employees, prescribing equal semi-monthly payments instead of monthly or bi-monthly payments.

FBISD EMPLOYEE MANUAL

ANNUALIZED COMPENSATION (page 18): Salaried employees will be paid in equal semi-monthly payments.

Based on the audit team's analysis, the August payment to teachers is not an advance or loan, and its characterization as a salary advance is inappropriate, particularly in light of the specific prohibition of advances or loans to individuals per Board Policy DEA (Legal). The payment does not constitute an advance because the teacher had earned – based on the pay rate and number of contract days worked in August – more than the flat payment amount.

Further, the payment is not compliant with Policy DEA (Local) in that it is not equal to other payroll payments. None of the semi-monthly payroll payments are currently compliant with Policy DEA (Local) in that the policy prescribes monthly or bimonthly payments.

Recommendation 1: Discontinue the use of the term salary advance and change local board policy and administrative practice to allow an accelerated off cycle payment to first year teachers.

FBISD should discontinue the characterization of the early payment to new teachers as an advance and develop a revised payment plan so that all payroll payments to new teachers are based on their actual pay (as opposed to a fixed amount).

Board Policy DEA (Local) will need to be modified to establish the new payment method. This should encompass not only the basis for calculating payments to new teachers, but also the timing of these payments (i.e. semi-monthly). Once the policy is adopted by the board, district administration will need to evaluate applicable provisions of the employee manual and other human resource or recruiting documentation that currently makes any references to salary advances or early payments. All district procedural documentation relating to this practice should be aligned with the revised Board Policy DEA (Local), and worded to ensure compliance with Board Policy DEA (Legal).

Management Response 1: Management agrees with this recommendation. We will eliminate the accelerated check and pay new teachers based on a 25 paycheck year. Since new teachers report to duty in mid-August, paying them a check on August 31st would not be an accelerated check. Any required policy or procedure revisions will be recommended to the leadership team by December 15, 2015 and subsequently any proposed policy revisions to the Board of Trustees in early 2016.

Finding 5: Accelerated off cycle payments to new teachers are not taxed when paid. From the review of the payroll register for the audit period, Gibson identified 1,022 (totaling \$1.9 million) accelerated off cycle payments that were not subject to taxes at the time of payment. All payments were in the amount of \$1,800. The 24 semi-monthly payments subsequent to the accelerated payment are reduced, to ensure teachers' annual contracted salaries are not exceeded. Taxes are taken out in each of these 24 payments, before this reduction.

Under IRS regulation, wages are taxable when constructively received by employees. Not taxing the accelerated off cycle payments when they are paid puts the District at risk of non-compliance with IRS regulations.

Finding 6: There were instances where new teacher accelerated off cycle payments were not recovered.

As outlined in the results for Test 5, there were 3 out of 7 teachers that received an accelerated off cycle payment but did not actually begin work with the District. When the employees were terminated in the system, no steps were taken to recover the money that had previously been paid.

Recommendation 2: Implement additional controls over accelerated off cycle payments.

If the District continues paying accelerated off cycle payments, the amounts should be taxed at the time they are paid, and controls should be implemented to ensure that all payments are fully recovered in situations when the receiving employee does not show up for work.

Management Response 2: *See Management Response 1 regarding accelerated checks. Regarding recovery of the accelerated check for exiting employees, we will develop standard operating procedures for accelerated checks to include controls to ensure accelerated checks are fully recovered upon terminations by August 21, 2015 as follows:*

- *Verify attendance with principals for all new teachers (57 for 2015-16 school year) receiving the accelerated check to ensure they have incurred work hours to have earned the accelerated check.*
- *Create a verification document for TR Advisors to check against when teachers are terminated prior to recouping the accelerated check.*
- *Communicate to the 57 employees who have signed up for the accelerated check at the end of August 2015 that it will be taxed.*

Finding 7: High volume of off-cycle checks creates a risk of late tax deposits. Section 11 of the IRS Publication 15 outlines the frequency by which Medicare taxes and federal withheld income taxes must be made. FBISD is a semiweekly depositor and must follow the semiweekly deposit schedule. Table 8 displays the semiweekly deposit schedule.

Table 8. Semiweekly Tax Deposit Schedule

Employee Pay Day	Taxes Deposited By the Following:
Monday	Friday
Tuesday	Friday
Wednesday	Wednesday
Thursday	Wednesday
Friday	Wednesday
Saturday	Friday
Sunday	Friday

Source: Internal Revenue Service (IRS) Publication 15, Section 11: Depositing Taxes

Under the semiweekly deposit schedule, taxes on employee payments made on Saturday, Sunday, Monday, and/or Tuesday must be deposited to the IRS by the Following Friday. Similarly, taxes on employee payments made on Wednesday, Thursday, and/or Friday must be deposited to the IRS by the following Wednesday. Deposits are made electronically via the Electronic Federal Tax Payment System.

The District currently deposits twice a month to coincide with the *scheduled* employee pay dates. For example the taxes for all payments issued on July 15th would be deposited by July 15th. Taxes for off cycle payments are not deposited until the next *scheduled* employee pay date. By this manner, there would be late deposits on off-cycle payments. Table 9 outlines the volume of off-cycle checks issued in January 2015 as well as when tax deposits would be due for those payments (in accordance with Table 8) and when deposits were made, based on the District's current practice.

Table 9. Off Cycle Payments

Off Cycle Check Date	No. Off Cycle Checks	IRS Due Date	FBISD Deposit Date
1/5/2015	9	1/9/2015	1/15/2015
1/6/2015	1	1/9/2015	1/15/2015
1/8/2015	7	1/14/2015	1/15/2015
1/14/2015	2	1/21/2015	1/15/2015
1/16/2015	2	1/21/2015	1/30/2015
1/20/2015	2	1/23/2015	1/30/2015
1/21/2015	2	1/28/2015	1/30/2015
1/23/2015	1	1/28/2015	1/30/2015
1/27/2015	1	1/30/2015	1/30/2015
1/28/2015	1	2/4/2015	1/30/2015

Source: Gibson review of Off Cycle check listing for January 2015

As shown in Table 9, there would be off cycle payments for which the taxes would be deposited late. This creates a risk of IRS penalties for late deposits. Section 11 of the IRS Publication 15 outlines the penalties that can be applied if the deposits are not made on time.

Recommendation 3: Review and revise timing of tax deposits to comply with the Internal Revenue Service requirements.

Under the current practice of depositing taxes on the scheduled pay dates, the District faces the risk of late payment penalties from the IRS. This is especially true given the high volume of off-cycle checks. The District should review the possible impact of penalties and deposit taxes for the off-cycle checks based on the published IRS deposit schedule. Additionally, several of the recommendations outlined in this report can help reduce the volume of off-cycle checks, which will also reduce the risk of late tax deposits.

Management Response 3: Management agrees with this recommendation. Management was working under the impression that diminimus rules that apply to payments to Federal Unemployment Taxes also applied to federal withholding. This was not a correct assumption.

On an immediate go forward basis, as issue checks are done, we will make tax payments weekly. This will ensure that tax payments will be in compliance with federal requirements by September 30, 2015.

In our effort to identify a more permanent solution, Finance will bring to E-Team a proposal for when issue checks will be warranted. This will require procedure changes and impacts majority of the district employees but will greatly diminish the volume of off-cycle checks that cause late tax payments.

Full compliance with the federal tax deposit schedule will be in place by December 2015.

Finding 8: The organizational alignment of the Payroll Department and Total Rewards group inhibits communication and improperly assigns payroll functions under Human Resources. The duties performed by the Total Rewards group under the Human Resources Department are typically performed by a Payroll Department. Payroll is an accounting function, and all payroll related processes should fall under this department. Further having human resources and payroll functions under the Human Resources Department does not adequately segregate duties for internal control purposes.

Human Resource Departments are generally responsible for the following non-payroll duties:

- Recruiting employees
- Overseeing the interviewing, selection, and processing of new employees
- Retaining employees
- Determining salaries and maintaining compensation schedules
- Planning and forecasting personnel needs
- Directing and monitoring the employee benefits program
- Developing and maintaining job descriptions
- Handling employee complaints and grievances
- Developing personnel policies and accompanying procedures for implementation
- Ensuring that related laws and regulations are followed

The task of calculating payments to ensure they are accurate is the Payroll Department's responsibility. For example, the tasks of processing extra duty pay or modifying paychecks after an employee has been hired, are typically under the Payroll Department. The task of enrolling employees in benefits and making any subsequent benefit plan changes, for example, is typically under the Human Resource Department.

Recommendation 4: Re-align the organization of the Payroll Department and Total Rewards group.

Based on the tasks performed by the Total Rewards Advisors, these employees should be aligned under the Payroll Department. The Total Rewards Advisors through their work, are changing payments to employees each payroll. Ultimately, ensuring the accuracy of employees' pay is a Payroll function and thus should be under the supervision of the Chief Financial Officer, instead of the Chief Human Resources Officer. Additionally, from the interviews held, it was evident that there are breakdowns in communication between the Payroll Department and the Total Rewards group. The Payroll Department is not always aware of all the payroll data changes that are outstanding and needed to complete the payroll cycle. Gibson also noted that when employees call the Payroll Department with any payment inquiries, they have to be routed to the Total Rewards group in Human Resources. This recommended

realignment can help eliminate some of the communication issues between the two departments as well as more properly align the responsibilities of each group.

Management Response 4: *Management partially agrees with the recommendation. Payroll automation opportunities have been identified and will be prioritized. Separation of duties will be completed after automation, training and re-assessment of organizational alignment. The following steps will be taken:*

- *By February 2016, the exit process will transition from HR to Payroll.*
- *By September 2016, projects to improve Employee Changes will be implemented.*
- *By December 2016, projects will be complete to improve pay consistency as it relates to Exits, Leaves, and Changes.*

Finding 9: Creation of administrative substitutes in PeopleSoft and processing of payments to those substitutes are not properly segregated. The Substitute Office currently is in charge of setting up administrative substitutes and processing payment to those substitutes. This presents a segregation of duty risk given that the same individuals are setting up the substitute in the system and processing payments. For example, the Substitute Office could create a fictitious employee and issue payments to that employee. In order to achieve effective internal control, the creation of an employee in the system and the processing of payment for that employee are separated.

Recommendation 5: Re-align processing of payments to all substitutes under the Payroll Department.

To remediate the segregation of duties risk within the Substitute Office, all the procedures to issue substitute payments should be re-aligned to the Payroll Department. In this manner, the Substitute Office, which is under the Human Resource Department, would be responsible for building the substitute pool, on-boarding new substitutes, and adding any new employees within PeopleSoft. The tasks relating to issuing and processing payments to employees, including substitutes, should lie under the Payroll Department. This re-alignment will establish appropriate segregation of duties.

Management Response 5: *Management agrees with this recommendation to the extent segregation of duties need to implemented. A process review will be conducted to identify controls that will allow a separate review and approval of payments by September 30, 2016.*

Finding 10: Procedures for processing extra duty pay are manual and time intensive. As previously mentioned, the process to pay extra duty is handled by one of the Total Rewards Advisors. The process begins with the “Request for Supplemental Pay” template being completed at the campus level and then sent to the Total Rewards Advisor via email. The Total Rewards Advisor typically receives over 100 requests each payroll period. Each request must be manually reviewed, consolidated and prepared for upload into PeopleSoft. Currently, processing these requests accounts for 100% of this position’s time. Because of the manual nature, the risk for erroneous payments increases for this type of pay.

Recommendation 6: Consider automating the submission of extra duty pay requests.

The District has made some improvements to the way that extra duty requests are submitted, for example the “Request for Supplemental Pay” template includes checks of general information such as employee identification number and employee name. While these improvements have helped, the processing of

extra duty pay still involves a high degree of manual processes. The District should consider implementing the system functionality that allows the requestor to submit requests for supplemental pay through the PeopleSoft platform. This would reduce the need to populate the request templates and the need for the Total Rewards advisor to manually compile all the templates into one. Additionally, creating an entry point through PeopleSoft can allow for validation of information. For example, PeopleSoft can check for valid employee identification numbers, employee names, accuracy of the rate associated with the extra duty pay, and also ensure that the request for extra duty pay for the employee is only submitted once for that employee during that pay period. Allowing for an automated entry point can also facilitate the process for the requestor to submit the request timely. For example, one of the reasons for off-cycle payments is missed extra duty pay due to late or lack of request submission. Providing an easier way to submit requests for pay through PeopleSoft can help reduce the need for the additional off-cycle payments. Under an ideal scenario, the requestor would submit a request through PeopleSoft, the request could then be routed to the appropriate Total Rewards Advisor and any additional parties needing to review the request. After the request is approved, the transaction could be processed along with the regular payroll process.

Management Response 6: *Management agrees with this recommendation to enhance supplemental pay and stipends. IT will work with Stakeholders to prioritize all development projects upon completion of the planned PeopleSoft v9.2 upgrade. Once prioritized and requirements have been defined for the supplemental pay online screen(s) and workflow requirements, IT can proceed with this project to complete, test and implement by June 2018.*

Recommendation 7: *Ensure that testing of newly developed automated payroll data change processes are complete, documented and approved.*

Based on interviews and audit testing, it was evident that the root cause for findings 10, 11, and 12 is the manual process involved in handling employee payroll data changes (e.g., terminations, position changes, etc.). Specifically, the point of entry of information from the campus/department level to the Human Resource Department has been a challenge. As outlined in the aforementioned findings, there are several instances of late documentation being provided to the Total Rewards group, which in turn results in late payments, the need for reversals of payments, and off-cycle checks. A solution that has been identified by the Total Rewards group is an implementation of automated entry points, and subsequent compensation calculations within PeopleSoft, based on those changes. Currently, the District is in the testing stages of the form for terminations. Through the new process a supervisor or employee will be able to submit a termination request that will then be routed to the appropriate parties for approvals. After those approvals, PeopleSoft will calculate the ending pay for that employee. This will remove the need for manual calculations and reduce the amount of time spent by the Total Rewards Advisors on these manual tasks. This also helps reduce the delay in getting documents to the Human Resource Department and eliminate the need for paper forms. It is the District's plan to implement similar functionality to other employee changes. In doing so, the District should ensure that the testing scripts for the system changes account for all possible scenarios and are properly documented and reviewed prior to implementation. The Total Rewards group and the Information Technology Department should work closely to ensure that all stakeholders are comfortable with the results of the test scripts prior to implementation, especially the Information Technology Department.

Management Response 7: *Management agrees with this recommendation. The District will continue in its efforts to automate and streamline processes as it relates to the handling of employee changes and will work collaboratively to thoroughly test and pilot the proposed process prior to launching implementation District-wide. These efforts will be complete by September 2016.*

Finding 11: Too many FBISD employees have access to “Correct History Mode” within Oracle PeopleSoft.

A user with correct history mode access has the ability to edit data irrespective of the date of creation. In other words, this allows for changes to historic, current, and future-dated data. Given that this type of access may have a potential impact on historic reporting from the system, it should only be granted in special circumstances. This mode overwrites historical records without leaving an audit trail. Based on the Correct History Mode access report from PeopleSoft Gibson identified 77 employees who have this level of access within PeopleSoft. The individuals listed in the report included staff from the Business & Finance office, Human Resources Department (Talent Operations, Total Rewards, and Talent Acquisition), Payroll Department and General Counsel.

Recommendation 8: Remove unnecessary access to “Correct History Mode” within Oracle PeopleSoft.

Allowing this level of access to so many employees (77 across multiple departments) presents a risk of altering historical data without having an audit trail. The Payroll Department and Human Resource Departments should review the list of who currently has this level of access and work the Information Technology Department to reduce the list to only a few individuals. For example, only Directors and above should have this access and department staff would need to bring any need to use this functionality to the Director. This will help prevent any inappropriate changes from being made. The only proper time to use this functionality is when an entry error has occurred and using the correct history mode functionality is the best solution. For example, if an employee’s name is misspelled, it would be appropriate to use the correct history functionality instead of creating a new record. This will avoid having multiple names associated with the same social security number.

Management Response 8: *Management partially agrees with this recommendation. Correct History Mode is often needed by Business & Finance staff to change the effective date of a stipend in the department budget table set up. Business & Finance staff do not have access to change the amount of pay or when the pay starts. They are only changing the date for the coding of the stipend. Allowing only Director level access to Correct History Mode will result in a shift of a significant amount of detail work to a much higher level position and not allow Directors to focus on high level issues. Finance will review the listing of who has access and will document why employees need the access in order to carry out their duties. IT will make the requested changes to security based on department review of access and business justification by December 2015. Correct history is not often used by Benefits and Payroll Staff. Audit tracking has been added to many tables; however, additional research will need to be done to determine additional payroll tables where this capability should be added. This should be completed by September 2015.*

Finding 12: Payline access within PeopleSoft is not properly restricted. Payline access within PeopleSoft allows for live checks to be edited. Based on the Payline access report from PeopleSoft, Gibson noted that 37 employees have this access. These employees are mainly in the Payroll Department, but members of the Business and Finance Department also have access. Furthermore, members of the Human Resource

Talent Operations group have access. It is unusual to see so many individuals in so many different roles with this type of access to live checks.

Recommendation 9: Review employees' access to Payline within Oracle PeopleSoft and remove as needed.

The District should review the list of individuals who have access to modify live checks via Payline access in PeopleSoft and remove access for those who do not need it. Typically, this access is restricted specifically to those individuals in the Payroll Department who are responsible for ensuring that employee payments are processed accurately.

Management Response 9: Management agrees with this recommendation. Employees that do not need edit Payline capability should have the access removed. However, a thorough review of processes will be needed to determine who is using Payline and why they have to use Payline. This will ensure there will be no disruption in the semi-monthly payroll processing and employees will continue to be paid correctly until proper policy and procedures can be implemented or system enhancements can be programmed, tested and placed into production. The use of Payline is a necessary function in Payroll and Benefits. Access is needed by all department staff so that work can be completed when not all staff are present. With the exception of Total Rewards no one else should have edit access to Payline. A query was provided for the Director of Payroll to review Payline activity; based on that review, access removal should be complete by December 2015, as needed.

In addition to Payline activity review, the remaining Payline tables will be reviewed to determine if a query is needed for audit tracking on additional Payline tables. If additional queries are needed a date will be identified.

Finding 13: The District uses inefficient manual time sheets for certain employees. The District currently has 93 employees who are completing manual timesheets in order to be paid. The majority of these employees are crossing guards that work on a part-time basis. The Payroll Department must manually key in the information from the hard copy time sheets into PeopleSoft. The Payroll Specialist 1 receives all timesheets (for each week) for all 93 employees and enters the totals into PeopleSoft for payment to be processed.

Non-exempt salaried employees also log their hours on hard copy time sheets. These time sheets are used to track any compensatory time earned and thus any overtime hours to be paid. Currently, payment for overtime worked by these employees is requested via the "Request for Supplemental Pay" Excel template. The hard copy timesheets are not sent to the Total Rewards group. Ultimately, it is the employee's supervisor who is responsible for monitoring overtime and requesting payment when the compensatory balance has exceeded the 60 hour threshold. As the hours are tracked on hard copy documents, it makes the task of tracking overtime more difficult. All time accrued and used is manually tracked. As noted in the results for Test 2, 5 employee payments for compensatory time were made after the employee had 120 or more (120-260) hours of compensatory time accrued. This is inconsistent with Board Policy DEA (local), which states that employees may not accrue more than 60 hours of compensatory time.

Recommendation 10: Implement procedures to electronically capture hours worked by employees.

The District should consider using Kronos to record and capture the hours worked by all non-exempt hourly employees. While the majority of those hourly employees not using Kronos are crossing guards, it should not be too burdensome to have these employees log their hours through Kronos. This will eliminate the need to manually enter hours worked from hard copy timesheets into PeopleSoft and thus reduce the risk of input errors as well as streamline the process from a payroll processing perspective.

The District is currently exploring the implementation of Web Clock. Web Clock is the PeopleSoft functionality that will allow non-exempt salaried employees to log their hours electronically. The employee will punch in and out through their computer terminal and PeopleSoft will capture and calculate the hours worked. Additionally, the system will allow for the timesheet to be routed to the employee's supervisor for approval. This will facilitate the tracking of compensatory time and the processing of payments for overtime earned. The District should ensure that the implementation is tested and that all testing scripts are documented and presented to the Information Technology Department prior to fully implementing.

Management Response 10: *Management partially agrees with this recommendation. Due to the requirements of the Fair Labor Standards Act (FLSA) and in order to improve efficiency and accuracy, we have placed the implementation of Web-Clock highest on our priority list for IT. However, with regard to crossing guards, access to a time-clock or workstation is limited when these employees start duty since the campuses are still locked at this time. Other alternatives will need to be explored. Our plan is to implement Web-Clock District wide by August 2016, following the PeopleSoft v9.2 upgrade project.*

Finding 14: Performance measures and evaluation procedures do not exist. There are currently no measures to evaluate performance of the functions within the Payroll Department and Total Rewards group.

Recommendation 11: Implement performance measures to monitor efficiency. The District should implement methods to review performance of the Payroll Department and Total Rewards group. This can be accomplished through surveys to obtain feedback from District customers. Other performance measures could include:

1. Number of paychecks per FTE payroll employee
2. Overtime hours per payroll employee
3. Payroll cost per paycheck
4. Percentage of employees on direct deposit
5. Number of payroll calculations per month
6. Number of off-cycle payments
7. Number of overpayments issued

Management Response 11: *Management agrees with the recommendation to implement performance measures, but only to the extent that the results of the measures are actionable and will impact decision making with the additional requirement that the production of most measures is automated. Measures will be selected and implemented by June 2016.*

Finding 15: Not all employees are on direct deposit. The District began requiring direct deposit enrollment for anyone joining the District after July 2010. However, there are 156 employees who are not enrolled in direct deposit. These employees receive hard copy paper checks. Several (46) of these employees were hired after July 2010.

Recommendation 12: Require direct deposit for all employees.

Despite the direct deposit requirement established in July 2010, there are still employees who are not on direct deposit. The District should review that list and recommend to those employees that they set up direct deposit to receive their paycheck. This will help increase efficiency and reduce the number of hard copy checks needed.

Management Response 12: Management agrees with this recommendation. We have been working to increase the percentage during the past few years. We have explored pay-card alternatives, but those options appear to be dwindling since fewer banks are offering them. Since we have so few employees left, our preference is give remaining employees information on local banks and eliminate the paper check option by December 2015.

Finding 16: Leave balance records have recently been updated for all employees. In the past year, the Human Resources Department completed an initiative to update all employees' leave records. This was needed due to inaccurate beginning balances for leave when PeopleSoft was implemented in 2007.

Appendix A – Interview Roster

Interviewee	Title	Date
Kelly Schlacks	Financial Services Director	03/16/2015
Sonja Curtis	Director of Payroll & Benefits	03/16/2015
Dr. Charles Dupre	Superintendent	03/16/2015
Steven Bassett	Chief Financial Officer	03/16/2015
Gail Ned	Payroll/Benefits Manager	03/17/2015
Cindy Mucka, Janet Singleton & Kim Brown	Payroll Benefits Clerk	03/17/2015
Janie Banda	Payroll Specialist	03/17/2015
Rebecca Garrett	Payroll Specialist	03/17/2015
Kermit Spears	Chief Human Resources Officer	03/17/2015
Gwyn Touchet	Director of Total Rewards	03/17/2015
Focus Group	N/A	03/18/2015
Kasey Ogle, Elaine Robinson, and J. Roberts-Hassan	Total Rewards Consultants	03/18/2015
Yolanda Cantu, Sarah Charles, Jeanne Peltier	Total Rewards Advisors	03/18/2015
Heena Lalani	Total Rewards Advisor - Salary Calculations	03/18/2015
Sheron Blaylock	Talent Operations Director	03/18/2015
Paulette Guidry	PeopleSoft Security Analyst	03/18/2015
Aubrey Shorter	Talent Rewards Advisor	03/19/2015
Graciela Ramirez	Talent Operations Advisor	03/19/2015
Connell Tyson and Patricia Lutz	Talent Acquisition Advisors	03/19/2015
Mitzi Patin	Director of Business Information Systems	03/25/2015

Appendix B – Testing Results

The table below provides a summary of the testing procedures performed, the results from those tests and general observations. The general observations are meant to highlight further areas of improvement. Gibson identified one general observation that was applicable to all tests below. Per review of all supporting documentation it was noted that all manually calculated payments are not reviewed by another individual within the District. While this review is not required, it is a best practice due to the manual nature of these calculations.

Test	Test Procedures	Results	General Observations
Test 1 – Hourly employee payroll payments	<p>From the payroll register report, selected individual employee payments. For each selection, validated the following:</p> <ul style="list-style-type: none"> Manual and Kronos timecards were approved by the appropriate individual(s). Hours paid agreed to records maintained on the manual and Kronos timecards. Hourly rate for employee was in line with Board approved pay schedules. Proper documentation was retained to support the hours and rates used to calculate the employee's pay. Recalculated the total payment, using the hours and rates. 	<p>Of the 14 payments selected for testing:</p> <ul style="list-style-type: none"> 1 timesheet was not properly approved. Proper documentation was not retained for 1 of the payments. 	<p>Of the 14 payments selected for testing:</p> <ul style="list-style-type: none"> There was a delay in processing the pay for 1 of the payments. Upon further investigation Gibson noted this was due to the late submission of paperwork to the HR department. While performing testing procedures on the paychecks selected the audit team identified a previous paycheck that was incorrect and subsequently reversed and re-issued.
Test 2 – Salary employee payroll payments	<p>For employees paid on a salary basis (exempt and non-exempt), the expectation is that each employee's gross pay would be consistent month to month. The payroll register report was analyzed to help identify monthly payments that deviated from 1/12th of the annual salary. For each selection, validated the following:</p> <ul style="list-style-type: none"> The employee's pay was properly calculated 	<p>Of the 17 payments selected for testing:</p> <ul style="list-style-type: none"> 2 payments were not properly calculated. These payments were issued for more than the correct amount. Upon notification by the audit team 	<p>Of the 17 payments selected for testing:</p> <ul style="list-style-type: none"> There was a delay in processing the pay for 3 of the payments. Upon further investigation Gibson noted this was due to the late submission

Test	Test Procedures	Results	General Observations
	<ul style="list-style-type: none"> - Salary agreed to the respective Board approved pay schedule. - Proper documentation was retained to support the calculation of the employee's pay (including any extra duty pay). 	<p>steps were taken to recoup these overpayments.</p> <ul style="list-style-type: none"> - Timesheets for 2 of the payments were not properly approved. 	<p>of paperwork to the HR department.</p> <ul style="list-style-type: none"> - Of these 3 delays, 3 resulted in the processing of incorrect pay that subsequently caused a pay adjustment, issue check, or reversal. - Of these 3 adjustments, 1 was incorrect resulting in an overpayment. - For 2 of the payments, a previous check was issued for an incorrect amount resulting in an adjustment to the pay selected. - 1 of the payments selected was incorrectly issued and subsequently reversed. - Accrued overtime over the 60 hour threshold outline in DEA (local) was not timely paid for 5 payments. - Work authorization forms for employees that accrue comp and flex time were not obtained for 2 of the payments selected.
Test 3 – Substitute employee payroll payments	Analyzed the payroll register report to identify all substitute payments. From that analysis, selected substitute payments that were unusually high (e.g., unusual is defined as payments larger than the established substitute rate times 20 workdays per month) based on the possible number of workdays in a given month. For each selection, validate the following:	<p>Of the 15 payments selected for testing:</p> <ul style="list-style-type: none"> - 1 payment was not properly calculated. This payment was issued for more than the correct amount. Upon notification by the audit team 	<p>Of the 15 payments selected for testing:</p> <ul style="list-style-type: none"> - There was a delay in processing the pay for 1 of the payments. Upon further investigation Gibson noted this was due to the late submission

Test	Test Procedures	Results	General Observations
	<ul style="list-style-type: none"> Substitute records, outlining number of days worked by substitutes were approved by the appropriate individual(s). Days paid agreed to the approved substitute records. Daily rate for substitute was in line with Board approved rates Proper documentation was retained to support the days and rates used to calculate the substitute's pay. Recalculated the payment, using hours and rate. 	<p>steps were taken to recoup this overpayment.</p> <ul style="list-style-type: none"> The days paid for 1 of the payments were incorrect. The substitute records for 1 of the payments were not properly approved. Records of approval for 1 of the payments could not be obtained. Therefore Gibson was not able to verify this approval. 	<p>of paperwork to the HR department.</p> <ul style="list-style-type: none"> The long-term teacher substitute rates were not timely adjusted for 2 of the payments selected.
Test 4 – Payroll deductions	<p>From the payroll register report, selected individual employee deductions. For each selection, validated the following:</p> <ul style="list-style-type: none"> Deductions were properly elected by the employee. Deductions were properly calculated based on the employee elections and TRS rates. Proper documentation was retained to support the amounts deducted from the employee's pay. Recalculated the total deductions. 	<p>Of the 5 payroll deductions selected for testing:</p> <ul style="list-style-type: none"> No deviations were identified. 	<p>Of the 5 payroll deductions selected for testing:</p> <ul style="list-style-type: none"> No further observations noted.
Test 5 – Accelerated off cycle payments	<p>From the payroll register report, selected individual new teacher accelerated off cycle payments. For each selection, validated the following:</p> <ul style="list-style-type: none"> Employee that received the accelerated off cycle payment was a new teacher to the District. The employees that received the payments did officially begin employment with the District. 	<p>Of the 7 accelerated off cycle payments selected for testing:</p> <ul style="list-style-type: none"> 3 accelerated off cycle payments were paid to employees that never began employment with the District. 	<p>Of the 7 accelerated off cycle payments selected for testing:</p> <ul style="list-style-type: none"> No further observations noted.

Test	Test Procedures	Results	General Observations
	<ul style="list-style-type: none"> Accelerated off cycle payments to employees that did not start employment with the District were properly reversed or recouped. 	These payments were not recouped.	
Test 6 – Terminated employee payroll payments	<p>Analyzed the payroll register report to identify all employees terminated during the audit period. From that analysis, selected individual termination payouts. For each selection, validated the following:</p> <ul style="list-style-type: none"> The termination was properly approved by the HR department. The employee's pay rate agreed to Board approved pay schedules. The termination payout was properly calculated. Proper documentation was retained to support the calculation of the termination payout. 	<p>Of the 9 termination payouts selected for testing:</p> <ul style="list-style-type: none"> 1 payment was not properly calculated. This payment was issued for more than the correct amount. The overpayment was not recouped. For 2 of the payments selected, proper documentation for stipend amounts could not be obtained. Therefore the audit team could not determine if these payments were properly issued or approved. 	<p>Of the 9 termination payouts selected for testing:</p> <ul style="list-style-type: none"> There was a delay in processing the pay for 3 of the payments. Upon further investigation Gibson noted this was due to the late submission of paperwork to the HR department. For 2 of the payments, a previous check was issued for an incorrect amount resulting in an adjustment to the pay selected. 1 of the payments selected was issued for an incorrect amount and was subsequently reversed.

Source: Gibson transaction testing workpapers

Appendix C – Recommendation Priorities

Priority	Recommendation
	Recommendation 1: Discontinue the use of the term salary advance and change local board policy and administrative practice to allow for accelerated off cycle payments to first year teachers.
	Recommendation 2: Implement additional controls over accelerated off cycle payments.
	Recommendation 3: Review and revise timing of tax deposits to comply with the Internal Revenue Service requirements.
	Recommendation 4: Re-align the organization of the Payroll Department and Total Rewards group.
	Recommendation 5: Re-align processing of payments to all substitutes under the Payroll Department.
	Recommendation 6: Consider automating the submission of extra duty pay requests.
	Recommendation 7: Ensure that testing of newly developed payroll data change processes are complete, documented and approved.
	Recommendation 8: Remove unnecessary access to “Correct History Mode” within the Oracle PeopleSoft.
	Recommendation 9: Review employees’ access to Payline within Oracle PeopleSoft and remove as needed.
	Recommendation 10: Implement procedures to electronically capture hours worked by employees.
	Recommendation 11: Implement performance measures to monitor the efficiency.
	Recommendation 12: Require direct deposit for all employees.

Red = High Priority

Orange = Medium Priority

Yellow = Low Priority