



## Chesterfield County, Virginia Internal Audit

9901 Lori Road, Room 142 – P.O. Box 40 – Chesterfield, VA 23832  
Phone: (804) 748-1240 – Fax: (804) 768-9346 – Internet: chesterfield.gov

**DATE:** June 28, 2019

**TO:** Mervin B. Daugherty, Ed.D.                      Chesterfield County  
Superintendent    School Board

Joseph P. Casey, Ph.D.                                      Chesterfield County  
County Administrator                                      Board of Supervisors

**FROM:** Greg L. Akers   
Director of Internal Audit

**SUBJECT:** School Payroll and Classification/Compensation Audit

The Office of Internal Audit completed an audit of School Payroll and Classification/Compensation, and the final report is attached.

We would like to thank Chesterfield County Public Schools Finance, Payroll, Human Resources, and Compensation and Benefits staff for their cooperation and assistance during this audit.

Attachment

Copy: Thomas Taylor, Chief of Staff  
Christina Berta, Chief Financial Officer  
Paula Aldous, Director of Finance  
Kim Carter, Director of Compensation and Benefits  
Emily Massey, Human Resources Coordinator



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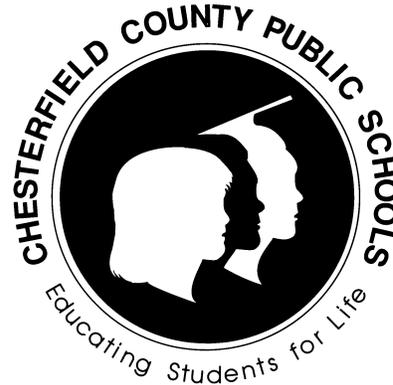
Greg L. Akers, Director  
Steve Sanderson, Audit Manager  
Khara Lounsbury, Technology Audit Manager  
Lora Holland, Senior Auditor  
Christopher Meade, Senior Auditor  
Terry Parker, Senior Auditor  
Jim Boudreau, Staff Auditor  
Sandra Fuentes, Staff Auditor  
Christian Wingfield, Staff Auditor  
Annette Stinson, Administrative Analyst

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# School Payroll and Classification/Compensation

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June 28, 2019



HIGHLIGHTS	1
INTRODUCTION	2
FINDINGS/RECOMMENDATIONS	
<a href="#">Payroll Processing</a>	5
<a href="#">Internal Controls</a>	9
<a href="#">System Maintenance/Compliance</a>	11
<a href="#">Terminations</a>	13
<a href="#">Overtime Payments</a>	16
<a href="#">Leave</a>	20

# School Payroll and Classification/Compensation

## Highlights

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### Payroll Processing

Large volumes of paper processing increase the risk for human error and documentation loss. Most school employees still report their leave or hours worked for supervisory approval using paper forms (i.e. leave slips and timesheets), with documentation maintained at each school or location where “timekeepers” manually enter. 10 of 40 employees tested could not be recalculated due to missing documentation.

**Recommendation:** Employees to directly report their time and attendance electronically (**repeat finding**) to decrease dependency on manual forms.

### Internal Controls

Schools does not consistently approve TWA assignments through workflow procedures. Out of 25 even dollar payroll payments tested, six were TWA supplement payments that had no position approval or other payment support.

**Recommendation:** Do not pay TWA assignments without HR approval.

### Terminations

Some supervisors failed to report employee terminations in a timely manner. Five employees tested not returning Fall 2017 after summer break continued to be paid resulting in overpayments of \$5,900. In addition, there are no documented follow-up procedures to collect overpayments.

**Recommendations:** School Payroll and Finance develop procedures to collect salary overpayments from employees.

### Overtime Payments

Current procedures and manual time reporting do not allow for proper control over overtime expenses. We recalculated overtime hours worked for 29 timesheets noting 14 overpayments for approximately 93 hours and \$2,108.

**Recommendation:** HR/Finance/Payroll implement changes to electronically record overtime hours worked and supervisory approval. (**repeat finding**).

### Leave

Internal audit tested 40 payments with paid leave and found that 13 of 40 did not have a time off request. We also performed a rollforward of vacation and personal leave balances, and noted balances are above the maximum as well as negative balances.

**Recommendations:** Schools conduct regular training with both primary and backup timekeepers to ensure consistency in forms, tracking and maintaining of payroll records (**repeat finding**). Finance and Payroll continue to evaluate the various manual leave requests and determine if there is a more automated process that could be used to request and record leave (**repeat finding**).

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*Management concurred with 21 of 22 recommendations detailed in the report to be implemented from June 30, 2019 to July 1, 2020. Internal Audit performs annual follow-up with management to confirm implementation status.*

# INTRODUCTION

## BACKGROUND

The Chesterfield County Public Schools (CCPS) Payroll and Classification/Compensation audit was included in the FY18 audit plan as a regularly scheduled audit. Payroll is a core financial function that includes responsibility for paying approved positions at authorized rates, time and leave reporting, wage deductions, depositing and reporting taxes, and W-2 reporting. The Finance Department processes payroll every two weeks using information submitted by employees and approved by supervisors. Coordination occurs for salary and benefits with the Human Resources and Compensation & Benefits departments. Payroll was over \$340 million for roughly 11,000 school employees during CY17 including full-time, part-time, substitutes and temporary workers.

## OBJECTIVES

Objectives of the audit were to:

- Verify payroll processing controls.
- Test payroll transaction processing.
- Report results to management.

## SCOPE

The audit focused on calendar year 2017 payroll. We considered the following code, policies, and procedures during our audit:

<i>Library of Virginia Records Retention and Disposition Schedule</i>	<i>Code of Virginia §22.1-296.2 Fingerprinting Required</i>
<i>Code of Virginia §22.1-296.4 Child Abuse and Neglect Data Required</i>	<i>Code of Virginia § 40.1-29</i>
<i>Chesterfield County Public Schools Coordinated Pay Plan</i>	<i>School Board Policy 5000 Human Resources, Section 10 Classification of Employment</i>
<i>School Board Policy 5450 Employee Resignations</i>	<i>School Board Policy 5000 Human Resources Appendix A Section 21</i>
<i>School Board Policy 5220 Vacation Leave for Twelve-Month Employees</i>	<i>School Board Policy 5230 Sick Leave</i>
<i>School Board Policy 5240 Personal Leave for Ten- and Eleven-Month Employees</i>	

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. Khara Lounsbury, Technology Audit Manager, and Christian Wingfield, Staff Auditor, performed the audit work. Chesterfield County Internal Audit is a department within the organization of Chesterfield County/Schools.

## METHODOLOGY

Detailed information regarding the methodology can be found in the individual findings listed in the report.

## INTERNAL CONTROL CONCLUSION

According to Government Auditing Standards, internal controls, in the broadest sense, encompass the agency's plan, policies, procedures, methods, and processes adopted by management to meet its mission, goals, and objectives. Internal controls include the processes for planning, organizing, directing, and controlling program operations. It also includes systems for measuring, reporting, and monitoring program performance. An effective control structure is one that provides reasonable assurance regarding:

- efficiency and effectiveness of operations;
- accurate financial reporting; and
- compliance with laws and regulations.

Based on the results and findings of the audit test work, auditors concluded that there are several opportunities for improvement to internal control procedures to better provide reasonable assurance to assist management in meeting its missions, goals, and objectives. Recommendations specific to improving these controls can be found in detail further in the audit report.

*Auditor Comment: We recommend CCPS Management consider options to strengthen the Finance and Human Resources areas. There appear to be insufficient staff resources and system limitations for these critical functions to operate effectively and efficiently. Staff time and effort on manual processes limit their availability for analysis to ensure accuracy, monitor compliance, and propose and implement improved policies and procedures.*

*During the audit there were multiple delays receiving supporting information and explanations for testing exceptions from CCPS. While there was turnover in key positions during the audit (Finance Director, Chief of Staff & Human Resources Director), CCPS staff had difficulty providing basic supporting documentation timely for test items and explaining exceptions encountered to auditors. Certain management responses to recommendations in this report include "Auditor Comment" (#6, #9, #12, #16, #17) where we believe additional attention is needed. We recommend management revisit those initial responses as resources are available. Our ongoing follow-up process for open audit recommendations provides a continued dialogue as solutions are implemented.*

*At the May 2018 planning meeting with management, we delayed audit start to Fall 2018 to avoid conflicts with CCPS summer scheduling and external audit tasks. Sample selections were provided September 2018, however requested support was still incomplete during our November on-site testing. Our initial testing and exception identification were completed in December. However, multiple communications and meetings occurred January through April requesting explanations for test exceptions. We held an April exit conference with CCPS to review draft findings and summarize remaining unexplained exceptions. Certain exceptions remained*

*unexplained when our draft report was issued May 2, 2019 for management responses to recommendations. Original May 22, 2019 response date was extended to June 1, 2019 and subsequently extended to June 27th. Certain management responses remain incomplete with unclear implementation approaches which did not resolve exceptions noted in testing.*

**CLOSING**

We would like to thank School Finance, Payroll, Human Resources and the Compensation and Benefits staff for their cooperation and assistance during this audit.

## FINDINGS, RECOMMENDATIONS, RESPONSES

### Payroll Processing

(Point Sheet 1)

#### **CRITERIA:**

Payroll best practices include:

- Employees directly reporting time and attendance electronically for supervisory approval.
- Electronic documentation storage to enhance efficiency and effectiveness of operations.
- Maintaining accurate employee types in employee profile to correctly process payroll.

Library of Virginia establishes document retention and disposition guidelines for local governments. Criminal history and background check records are not to be retained after the hiring decision. This includes: criminal background investigation reports, fingerprint cards, central registry forms, and other security records. Payroll records, including leave records, time and attendance reports as well as time sheets must be retained for 5 years.

Employees cannot begin assignment until Child Protective Services (CPS) check, and State and FBI criminal background checks required by the Code of Virginia have been completed.

Code of Virginia §22.1-296.2 Fingerprinting required: “As a condition of employment, the school boards shall require any applicant to submit to fingerprinting and to provide personal descriptive information to be forwarded along with the applicant's fingerprints through the Central Criminal Records Exchange to the Federal Bureau of Investigation for obtaining criminal history record information regarding such applicant”

Code of Virginia §22.1-296.4 Child abuse and neglect data required: “Every school board shall require, as a condition of employment, that any applicant who is offered or accepts employment requiring direct contact with students to obtain a search of the registry of founded complaints of child abuse and neglect”

Per the Code of Virginia §40.1-29, employers can require employees accept direct deposit to their bank accounts for payroll. Direct deposit is widely considered a best practice, reducing costs associated with account reconciliation and investigation, check distribution and handling, re-issuing checks, stop payment charges and postage.

#### **CONDITION(S):**

Payroll processing at Chesterfield County Public Schools involves a combination of manual and electronic steps. Each pay period, time is manually entered by "timekeepers" with supporting documentation (leave slips and timesheets for FT and PT employees) maintained at each school or location. Timekeepers are responsible for full-time, part-time and substitute employees' time entry. Temporary work assignment timesheets are sent to the finance department for payroll processing. Full-time employees have time entry by exception-based reporting. If a full-time employee has any leave during the period, the timekeeper enters time into ONESolution from a manual leave request. Part-time workers turn in manual timesheets which are entered by the timekeepers. Timekeepers print “Subfinder” reports and enter Substitute employee's hours worked from the report. Some departments with hourly employees such as custodial services and operations and management use a timeclock, but most still utilize a paper timesheet.

## FINDINGS, RECOMMENDATIONS, RESPONSES

### Payroll Processing

(Point Sheet 1)

We selected a sample of 40 employees (Full-Time, Part-Time and Substitutes) for two pay periods to recalculate payroll and test leave request procedures. The sample consisted of 20 new hires and 20 terminations. We noted:

- We were not provided documentation to perform recalculation for ten employees (6 Full-time, four Substitutes) from 6 departments. Missing documentation included:
  - From Payroll:
    - Two “Computation of Pay” worksheets
    - Seven payroll files (tax and benefit withholding support)
    - Seven prelist reports (paystub detail for tested employees)
  - From work locations:
    - Three substitute detail reports (hours worked support from Subfinder system)
    - Seven leave requests
- One employee was misclassified as a substitute. Substitute positions do not earn leave, however they were working FT and taking leave. We believe if employment classification changed at some point, it was never updated in system.

For the 20 newly hired employees, we reviewed employee screening (i.e. HR checklist, form I-9 SSN verification, background fingerprinting, Child Protective Services background and withholding and benefit selections). We noted:

- Criminal background check and review of results for certain new employees were not consistently documented.
  - Background fingerprinting (six positions)
  - Child Protective Services background (four positions)
- Certain files included criminal background records, which should be destroyed after the hiring decision per the Library of Virginia.
- HR checklist and withholding and benefit selections were not provided for one position.

The state of Virginia allows employers to require electronic deposit, however CCPS has no direct deposit requirement for employees. In CY17, approximately 1,860 (16%) of employees paid during the year did not use this option.

#### **CAUSES:**

- The large volume of paper processing for personnel files and payroll increases the risk of documentation loss.
- Most departments with hourly employees do not have an electronic timekeeping system. Timekeepers, rather than employees, are responsible for entering time.
- Payroll processing allows an employee to be paid for a type that is different than their employee profile.
- There is no database to document background check and CPS results were received and evaluated.
- Confidential background information is included in personnel files rather than being destroyed after hiring decision.

## FINDINGS, RECOMMENDATIONS, RESPONSES

### Payroll Processing

(Point Sheet 1)

- There is no requirement for employees to use electronic deposit.

#### EFFECTS(S):

- Risk of human error due to manual processing and incomplete supporting documentation. Accessing paper information across multiple locations for operational monitoring and review is cumbersome.
- Non-compliance with Library of Virginia Document Retention and Disposition guidelines.
- Employee profile data may not accurately reflect employee type.
- Compliance with Virginia code, criminal background, and Child Protective Services requirements is not documented.
- Processing paper checks each payroll is a timely and costly process.

#### RECOMMENDATION(S):

We recommend:

1. School Payroll and Finance identify opportunities to have more employees directly report their time and attendance electronically (**repeat finding #2 from report dated 12/22/2016**) to decrease their dependency on cumbersome manual forms.
2. School Payroll and Finance develop procedures and training across the system (including all timekeepers and payroll staff) to maintain payroll records for five years in compliance with Library of Virginia requirements, including: leave records, time and attendance reports as well as time sheets and paystub detail.
3. School HR to develop procedures to comply with Library of Virginia retention requirements for criminal background documentation after hiring decision (**repeat recommendation from our recent March 4, 2019 Temporary Work Assignments audit report, recommendation #14**).
4. School HR to develop method to document background check and CPS results were received and evaluated (**repeat recommendation from our recent March 4, 2019 Temporary Work Assignments audit report, recommendation #13**).
5. School HR continue to pursue opportunities to implement electronic personnel files.
6. School Finance to propose a policy which will require employees to use electronic deposit.

## FINDINGS, RECOMMENDATIONS, RESPONSES

### Payroll Processing

(Point Sheet 1)

#### MANAGEMENT'S RESPONSE(S):

1. *Concur. Director of Finance, Paula Aldous, in conjunction with all Department Directors are responsible for implementing 7/1/20. Have identified multiple opportunities. A piece meal approach. For Departments, an internal system has been implemented (Sept 2019 - 760+ employees) for automating leave routing, recording and reconciliation. Smartfind is being evaluated for use for the teacher population (to avoid duplication of efforts - approx 7,000+ employees). TimeClock Plus has been rolled out to facilities and to be implemented by Food Services (July 1,2019). For all opportunities, we are leveraging the uploading capabilities fo ONESolution. We must successfully navigate opening upload capabilities in multiple departments.*
2. *Concur. Director of Finance, Paula Aldous, in conjunction with Payroll Manager are responsible for implementing 10/1/19. Completed a major purge at the end of 2018. All boxes that were reviewed were given destruction dates. Will develop a training / procedure document that will be distributed to the payroll department.*
3. *Concur. HR Coordinator, Emily Massey, is responsible for implementing 7/1/20. HR will begin destroying background checks in accordance with Library of Virginia retention schedules.*
4. *Concur. HR Coordinator, Emily Massey, is responsible for implementing 7/1/20. Current practice exists to document receipt of background checks (CPS & FBI). We will implement a more thorough practice to clearly document that items have been reviewed.*
5. *Concur. HR Coordinator, Emily Massey, is responsible for implementing 7/1/20. School HR is in the process of implementing TalentEd Records, an electronic personnel file. We are also exploring Laserfiche for additional functionality and electronic forms processing.*
6. *Concur. Payroll Manager, Sharonda Hurt, is responsible for implementing 7/1/20. Some of CCPS employees are unable to have a checking account making this recommendation difficult to enforce; We will continue to encourage direct deposit - however under Code Section 40.1-29 we can only enforce the use of direct deposit if we have a prepaid debit or credit card program established to transfer funds to the employee as a payment vehicle. This could only be used for those employees hired after Jan 1, 2010. The Payroll Manager will research with the County Payroll Department to leverage any efficiencies that may have been achieved within their processes related to the reloadable debit card program.*

***Auditor Comment:** The County requires employees hired since July 1, 2007, as a condition of employment, to receive pay by direct deposit (County Administrative Policy I-4: Accounting). In addition to regular checking accounts, employees can select reloadable no-fee debit cards for direct deposit that are commercially available.*

## FINDINGS, RECOMMENDATIONS, RESPONSES

### Internal Controls

(Point Sheet 2)

#### **CRITERIA:**

Proper internal control includes verification of position approval and pay amounts prior to payroll processing.

Contracted employees, such as teachers and administrators, receive the “Notice of Assignment” or the “Annual Form Contract with Professional Personnel” yearly. These forms include position title, salary, work dates and approval.

#### **CONDITION(S):**

We identified 1,258 even payroll payments to employees and selected 25 exceeding \$1,000 to test payment support. We found:

- Six TWA supplements (ranging from \$1,300-3,000) did not use ONESolution webform to document TWA assignment requests, payment amount and required approval. There was no documentation of HR position approval or other payment support.
- One payment for two TWA assignments (\$4,800) exceeded the approved position amount in the Coordinated Pay Plan (~\$3,500).

CCPS issued 136 special payroll checks (i.e. outside normal payroll cycle) during CY17. We selected 20 special payroll checks to review backup documentation for reasonableness. CCPS uses a form for special check requests, no exceptions were noted.

We tested 10 of 62 employees paid greater than \$100,000 for approved salary that agreed with the coordinated pay plan. All tested positions agreed with plan annual salary range. However, 8 of 10 did not have a position approval document (i.e. signed annual professional contract) in their personnel file.

#### **CAUSE(S):**

- Payroll’s manual process to verify TWA pay did not prevent unapproved positions from being paid.
- The system does not prevent TWA employees from being paid amounts outside of the Coordinated Pay Plan.
- Annual professional contracts are not consistently used.

#### **EFFECT(S):**

- TWAs are being paid without workflow approval procedures.
- TWA employees could be paid rates not approved in the Coordinated Pay Plan.
- Salary approval not documented.

## FINDINGS, RECOMMENDATIONS, RESPONSES

### Internal Controls

(Point Sheet 2)

#### **RECOMMENDATION(S):**

We recommend:

7. School Payroll, Finance and HR implement control that will not pay TWA positions without HR approval.
8. School Compensation and Benefits maintain approval documentation for any payrate and assignment exceptions to the Coordinated Pay Plan (Repeat recommendation from our recent March 4, 2019 Temporary Work Assignments audit report, recommendation #9).
9. HR include annual salary approval documentation in personnel file.

#### **MANAGEMENT'S RESPONSE(S):**

7. *Concur. Director of Finance, Paula Aldous, in conjunction with Payroll Manager, HR and all Department Directors are responsible for implementing 7/1/20. Payroll will work to identify violations with regular communication to HR & Management to reinforce policy implementation.*
8. *Concur. Compensation and Benefits Director, Kim Carter, and Compensation Administrator are responsible for implementing 7/1/19. Compensation and Benefits Director, and Compensation Administrator, are responsible for implementing and ongoing. This is currently being done for any assignments and pay rates that are in the Coordinated Pay Plan. We will continue this process. We will add this information to employee files on an on-going basis.*
9. *Concur. HR Director is responsible for implementing 7/1/20. Teacher salaries are determined by the scale. Salaries for positions on the graded pay plan are documented on a Salary Adjustment (SAD) sheet, which is placed in the file. Annual increases are approved by the School Board. The new salary is documented via the notice of assignment or contract as appropriate based on the position type.*

**Auditor Comment:** *Implementation approach to ensure personnel files include salary approval documentation going forward is not clear in management response above.*

**FINDINGS, RECOMMENDATIONS, RESPONSES**  
**System Maintenance/Compliance**  
(Point Sheet 3)

**CRITERIA:**

Per School Board Policy 5000 Human Resources, Section 10 Classifications of Employment, Part-time employees are defined as those hired to work fewer than 30 hours per week on a regular basis. Per ACA guidance, any employee who works at least an average of 30 hours per week or 130 per month are considered FT and must be offered health insurance.

HR has a form for employees to report address changes for system update (ONESolution).

**CONDITION(S):**

Internal audit obtained a list of part-time employees with total hours worked during CY17. We evaluated benefit eligibility all 26 working more than 1560 hours (130 hours per month). 24 were not eligible based on job status type. We could not determine that benefits were offered to two individuals that appear eligible based on hours worked.

Auditor identified 41 employees who worked during 2017 with out of state addresses. We selected 25 to test potential overpayments and verify timely update for any separations. We did not identify any overpayments. However, we noted:

- One active employee with incorrect address in system. A temporary address change (Louisiana) from 6/2017 has never been updated to a local address in the system. We independently confirmed she remains an active employee.
- One substitute teacher who last worked in 6/2017 remains in active status. Also, the system address (Illinois) does not match the forwarding address (Kansas) support in the personnel file.

**CAUSE(S):**

- ONESolution does not have a standard report to help identify benefit eligible part-time employees. School compliance is not documented for certain employees exceeding 1560 hours.
- There is no process to periodically review out of state active employee addresses for reasonableness.

**EFFECT(S):**

- Eligible part-time employees may not be offered benefits.
- Inaccurate addresses may impact tax reporting distribution.

**FINDINGS, RECOMMENDATIONS, RESPONSES**  
**System Maintenance/Compliance**  
(Point Sheet 3)

**RECOMMENDATION(S):**

We recommend:

10. HR to periodically review out of state addresses in system for active employees to confirm status.

**MANAGEMENT'S RESPONSE(S):**

10. *Concur. HR Director and HR Coordinator, Emily Massey implemented quarterly review of out of state addresses as of 8/2018. Excerpt from our procedure manual...The report, HR\_JOR\_ACTIVE\_WITH\_OUT\_OF\_STATE\_ADDRESS, should be run quarterly. An email should be sent to all employees with instructions to update their address or report to HR if the out-of-state address is to remain. Employee Guide 2018-19 Reports 8.22.18. Revision - A copy of the report will be provided to the HR Administrator of Substitute & TWA staffing for review and deactivation as appropriate.*

## FINDINGS, RECOMMENDATIONS, RESPONSES

### Terminations

(Point Sheet 4)

#### **CRITERIA:**

School Board Policy 5450 Employee Resignations outlines that employees who wish to terminate employment should give notice at least two weeks prior to their desired separation date. Notice should be given to the employee's immediate supervisor who will is responsible for reporting the termination.

Best practices include providing departments reports to validate accuracy for employees paid, and that proper cut-off occurs for any terminations.

#### **CONDITION(S):**

We analyzed 1,448 CY17 terminations to compare termination date to last pay date. For the 155 with dates spanning more than 30 days, we selected 25 (19 FT/PT and 6 Subs) to test pay cutoff. We noted that termination dates entered into the system did not always accurately reflect last day worked. In addition:

- Five employees not returning Fall 2017 after summer break continued to be paid resulting in overpayment (approximately \$5,900). Supervisors did not report employee absences timely.
- Seven employees' termination and pay end dates in the payroll system were inconsistent with actual last paycheck dates.
  - Five substitute employees last paid between 2011-2016 were not terminated in system until CY17. There is no required reporting for substitutes that do not plan to continue working.
  - One employee with approved disability retirement in 7/2017 was not terminated in the system until 9/2017.
  - One employee with termination and last paycheck of 6/2017 had a system pay end date of 7/2016.
- Two employees did not have documentation to support the termination date.

We also recalculated final payments for the 25 terminated employees mentioned above. We found:

- Nine FT/PT payments did not have supporting documentation for last paycheck.
- Schools did not provide supporting detail report/timesheets for five substitutes.
  - One employees' paystub (\$386) listed hours worked of 0.01.
- Schools did not provide paycheck stubs for two substitutes.

There is still no reporting to school department management by pay period of their employees paid. Without such reporting, management cannot evaluate reasonableness of employee pay and accuracy of termination cutoffs. This finding was also included in the most recent payroll audit issued December 22, 2016, with a recommendation that "management provide departments with reports to validate employees paid" each pay period. School management reported implementation as of June 30, 2017. We requested three months' reports in 2017 to review the new process. We were informed that the process had not been put in place.

## FINDINGS, RECOMMENDATIONS, RESPONSES

### Terminations

(Point Sheet 4)

HR does not always receive notification when employees leave, which results in salary overpayments. Overpaid employees identified by Payroll are notified in writing, however, there are no documented follow-up procedures to collect overpayments. At 12/31/17, the salary overpayment receivable was \$58,694 for 53 employees.

#### **CAUSE(S):**

- Untimely employee termination reporting and no collection procedures for salary overpayments.
- Termination dates are entered to reflect years worked purposes rather than the actual last day worked.
- There is no defined termination process for substitutes.
- The large volume of paper processing increases the risk of documentation loss.
- Detailed reporting to supervisors of current employees included in each payroll has not been put into practice (prior audit recommendation).

#### **EFFECT(S):**

- Employees being paid after termination date and those overpayments are unlikely to be collected.
- Payroll cut-off is difficult to determine when termination date is not reflective of last day worked.
- Substitutes not working can remain active in the system and potentially return after years of inactivity without a reauthorization process.
- Risk of human error due to manual processing.
- Non-compliance with Library of Virginia Document Retention and Disposition guidelines.
- Supervisors cannot validate accuracy of employees included in their payroll.

#### **ACTION TAKEN:**

School Payroll began the process to provide departments with reports each pay period to validate employees paid and to confirm terminations during 2017 and the processes were functioning by October 2018, after the audit period.

#### **RECOMMENDATION(S):**

We recommend:

11. School Payroll and Finance develop procedures to collect salary overpayments from employees.
12. School HR use last day worked as termination date in ONESolution.
13. School HR develop process to de-activate substitutes in the system when they have not worked for a year.

*Note – Also see earlier recommendation #2 to maintain payroll records for 5 years in compliance with Library of Virginia requirements.*

## FINDINGS, RECOMMENDATIONS, RESPONSES

### Terminations

(Point Sheet 4)

#### MANAGEMENT'S RESPONSE(S):

11. *Concur. Director of Finance, Paula Aldous, in conjunction with County's Accounts Receivable Department are responsible for implementing 6/1/20. Plan to utilize the Receivable module in OneSolution to track salary overpayments. Policy and practices will be developed to manage these collections.*
12. *Concur. HR systems is responsible for implemented 7/1/2019. Last day worked is used as the Termination Date in OS with the exceptions noted: Retirements (Disability & Normal Retirements), SRP Completions and LOA Expiration/Not Returning from LOA. Retirements are always effective the 1st of the month and SRP Completions are 06/30/XX.*

*Auditor Comment: Implementation approach and responsible position to ensure system termination date accuracy going forward is not clear in management response above.*

13. *Concur. HR Director, and HR Coordinator, Emily Massey implemented 7/1/18. The HR Department requires substitutes to work 6 days per school year to remain active. This was communicated to substitutes via the Substitute Handbook. The individual cited as having last worked 6/2017 was, according to the pay assignment screen, inactivated 6/6/2017. The HR Administrator for Substitute Staffing runs an activity report from SmartFind at the end of each semester and inactivates employees who have not met the minimum work requirements.*

## FINDINGS, RECOMMENDATIONS, RESPONSES

### Overtime Payments

(Point Sheet 5)

#### **CRITERIA:**

School Board Policy 5000 – Human Resources Appendix A – Section 21 describes the Fair Labor Standards Act (FLSA) which establishes overtime pay standards for workers in local government. Time worked beyond normal hours is compensated at the regular rate of pay for the hours worked up to 40. Beyond 40 hours worked, the employee is eligible for overtime pay at time and one-half. The Coordinated Pay Plan explains “If the employee uses paid leave time during the work week, those hours do not count toward the initial 40.” Exempt employees are excused from these standards.

The Coordinated Pay Plan states “Timesheets where overtime is recorded must be forwarded to the payroll department on a weekly basis.” Additionally, “Copies of all time sheets must be kept on file at the work site.” It also states that “exempt employees do not qualify for overtime compensation”

School Board Policy 5000 – Human Resources Appendix A – Section 21 states “The appropriate supervisor must approve overtime in advance.”

#### **CONDITION(S):**

Internal Audit performed analytics on overtime expenses for CY17 and noted the following:

The breakdown of CY17 overtime expenses (\$3,461,050) is as follows:

Payroll Code:	Description:	Amount:	Percentage:
5651	Overtime Pay at 1.0	\$2,932,340	84.72%
5652	Overtime Pay at 1.5	106,895	3.09%
5654	Overtime Pay at 0.5	355,744	10.28%
5950	Overtime Adjustments	66,071	1.91%
	<b>Totals:</b>	<b>\$3,461,050</b>	<b>100.00%</b>

Overtime pay at 0.5 also includes a straight time (i.e. overtime pay at 1.0) component. We estimate overtime pay for work over 40 hours is \$1,174,127 (34% of total expenditures).

Total CY17 overtime expenses are allocated to the following departments:

Department Code:	Department:	Amount:	Percentage of total (\$3,461,050):
944---	Transportation	\$1,900,927	54.92%
*99---	Central	619,523	17.90%
931---	Operations & Maintenance	229,423	6.63%
814---	Special Education	211,729	6.12%
Various	Other	499,448	14.43%
	<b>Totals:</b>	<b>\$3,461,050</b>	<b>100.00%</b>

Internal Audit reviewed overtime expense detail for CY17. We selected 11 of 13 employees that were paid more than \$10,000 in OT payments during the year. From those 11 employees we selected single payments greater than \$1,000 per pay period and ended up with 29 payments (64 timesheets). For each payment we reviewed timesheets to recalculate the overtime payment to determine its reasonableness.

## FINDINGS, RECOMMENDATIONS, RESPONSES

### Overtime Payments

(Point Sheet 5)

Current procedures do not allow for proper control of overtime expenses. We are unaware of any process that approves overtime in advance or limits overtime to a certain amount. During our testing, we noted that requested timesheets were located at offsite locations rather than the finance office. We noticed individuals were calculating timesheets using both hours: minutes and decimal hours' time, which results in inconsistent time calculation.

Additionally, we noted different timesheet formats were used between departments, including one that used an electronic timeclock.

Other results include:

- 2 of 29 payments supporting timesheets were not provided for review.
- 3 of 29 payments did not have supervisory approval on timesheets.
- 14 of 29 payments had higher amounts than recalculation for total difference of approximately 93 hours and \$2,108.
- 3 of 29 payments reported overlapping hours worked on timesheets for a total of 18.25 hours and were overpaid \$366.
- 6 of 29 payments counted holiday/sick/leave time towards hours worked and therefore were overpaid overtime for a total of 83 hours and \$1,794

We also analyzed the ten largest single overtime payments. For each payment we recalculated the overtime payment to determine reasonableness. We noted the following as a result of our testing:

- The timesheets for one payment were not provided.
- 7 of 10 timesheets provided were timeclock reports with no supervisory approval.
- 2 of 10 employees who work in the finance department were classified as FLSA exempt, and therefore are not eligible for overtime. We were not provided approval documentation or hours support. In addition, there were no overtime hours entered in ONESolution.

We analytically reviewed all overtime payments made to employees currently classified as exempt (26 payments). ONESolution only indicates current classification, not historical. 18 payments were correctly made to employees that were non-exempt at time of payment. However:

- 6 of 26 overtime payments (three teachers, two finance employees and one operations and maintenance supervisor) were made to exempt employees who are not eligible for overtime.
- Two non-exempt employees were misclassified in ONESolution as exempt. Their overtime payments were correctly paid.

#### **CAUSE(S):**

- Current policies do not allow for proper control of overtime expenses.
- The large volume of paper processing increases the risk of error, such as: miscalculation of timesheets and payment without supervisory approval.
- Record retention is not consistently occurring.
- Certain exempt employees in the finance department worked overtime and overtime payment was approved by supervisor.

## FINDINGS, RECOMMENDATIONS, RESPONSES

### Overtime Payments

(Point Sheet 5)

- The current process does not prevent exempt employees from being paid overtime. Also, certain employees' status is incorrect in the system.

#### **EFFECT(S):**

- Human error and data loss is more likely to occur due to manual processing.
- Employees are paid without supervisory approval.
- Exempt employees were paid overtime.

#### **RECOMMENDATION(S):**

We recommend:

14. Finance and Payroll consider staffing levels to avoid overtime payments to exempt employees. **(repeat finding from report dated 12/22/16 - #1)**
15. HR, Finance, and Payroll implement changes to electronically record overtime hours worked and supervisory approval. **(repeat finding from report dated 12/22/16 - #2)**
16. HR consider policy changes to establish an overtime hour limit per employee.
17. Compensation and Benefits reinforce FLSA requirements to appropriate employees for overtime payment exceptions noted above.

#### **MANAGEMENT'S RESPONSE(S):**

14. *Concur. HR Director and Compensation Benefits Director, Director of Finance and Payroll Manager are responsible for implementing 6/30/19. We adjusted job descriptions and exempt employees do not receive payments of overtime.*
15. *Concur. Director of Finance, Paula Aldous, in conjunction with other Department Directors are responsible for implementing 7/1/20. We are taking this one department at a time. Facilities has implemented TCO and is working with payroll to create an upload file for all exception-based time & attendance. Food Service will be the next department to implement this. Transportation still requires further investigation.*
16. *Do Not Concur. FLSA dictates that employees must be paid for hours worked. Department leaders have the autonomy to determine staffing requirements to meet their operational needs.*

***Auditor Comment:*** *There are inherent risks associated with prolonged work shifts. An overtime hour policy limit could provide a benchmark for department monitoring to help ensure the safety of employees and others. For example, Chesterfield County policy CAP 6-17 currently limits County employees to 700 overtime hours and 1,050 overtime hours for Fire and EMS employees.*

17. *Concur. Director of Compensation and Benefits, Kim Carter, is responsible for implementing 7/1/19. This information is in the Compensation Plan document and will continue to be provided during training sessions with administrators and staff.*

***Auditor Comment:*** *Process change to notify supervisors incorrectly approving overtime is not clear in management response above.*

## FINDINGS, RECOMMENDATIONS, RESPONSES

### Leave

(Point Sheet 6)

#### **CRITERIA**

School Board policy 5220 states that a twelve-month full-time employee with less than ten years' experience shall earn 1.25 vacation days per month plus one bonus day every June 30<sup>th</sup> and has a maximum accumulation of 288 hours. A twelve-month full-time employee with more than ten years' experience shall earn 1.5 vacation days per month plus two bonus days every June 30<sup>th</sup> and can accumulate a maximum of 360 hours. On October 1 of each year, vacation leave, including accumulation for bonus days, will be reduced to the maximum accumulation allowed. The Superintendent or the Superintendent's designee may approve a six-month extension one time during the employee's tenure in the school division, provided unusual workload conditions or emergency circumstances existed that prevented the employee from using excess vacation leave prior to October 1. Also, an employee who resigns or retires can be paid for up to the maximum accumulation allowed. Vacation leave must be approved by a supervisor at least 10 days prior to the leave period.

School Board policy 5240 states that full-time ten- or eleven-month employees shall earn 2 paid personal days per year. The maximum personal leave accumulation shall be 360 hours. On October 1 of each year, personal leave will be reduced to the maximum accumulation. The Superintendent or the Superintendent's designee may approve a six-month extension one time during the employee's tenure in the school division, provided unusual workload conditions or emergency circumstances existed that prevented the employee from using excess personal leave prior to October 1. Also, an employee who resigns or retires can be paid for up to the maximum accumulation allowed. Personal leave must be approved by a supervisor at least 10 days prior to the leave period.

School Board policy 5230 state that full-time employees accrue sick leave at the rate of one day per full month of employment. There is no limit on the accrual of sick leave and employees are eligible for a payout upon termination if they meet certain conditions.

#### **CONDITION(S):**

When employment ends, a final paycheck calculation for unused leave is performed by a payroll employee. Final payouts can be significant amounts and the computation form does not include documented supervisory review and approval. We examined the ten largest CY17 payouts, ranging from \$20,341 to \$29,822 to determine reasonableness. We discovered one employee was paid for 376 hours for their Personal Day Payout, which should be limited to 360 hours. This resulted in overpayment of \$626.

## FINDINGS, RECOMMENDATIONS, RESPONSES

### Leave

(Point Sheet 6)

Internal audit compared employee vacation leave balances between the June 30, 2017 and December 31, 2017 registers provided by schools. After analysis, we performed three tests:

1. Rollforward on six employees (out of 52) whose balance increased/decreased more than 75 hours (maximum accrual should be 72 hours).
  - Six balances did not roll forward/recalculate.
    - Two terminated employees with completed payouts still had 6-hour remaining balances on the December 31<sup>st</sup> report.
    - Four employees had unreasonable ending balances that have not been explained by payroll.
  - Three individuals had approved leave extension requests. 1 of the 3 requests did not document excessive workload conditions.
2. Rollforward on six employees (out of 51) that had no ending vacation leave balance at December 31, 2017. We verified that all six employees had terminated during CY17 which aligns with our expectations of no leave balance at year end.
  - 3 of 6 employees did not receive the expected vacation leave payout amount.
  - 1 of 6 employees did not receive a vacation leave payout after termination.
3. Rollforward on 19 (out of 181) employees who had no beginning balance at June 30, 2017. We verified that four employees were hired after June 30.
  - 10 of 19 balances did not roll forward/recalculate.
  - 2 of 19 employees should have appeared on June 30<sup>th</sup> vacation leave register.
  - 4 of 19 employees received a pay adjustment (double their normal rate) at 6/29/17 which we could not tie to a position/contract change.

In addition to the three tests above, we noted seven (out of seven) employees with negative vacation leave balances of ten hours or more at December 31<sup>st</sup>. Negative balances ranged from 18 to 301 hours and have not been explained by payroll.

Similarly, internal audit compared employee personal leave balances between the June 30, 2017 and December 31, 2017 registers provided by schools. After analysis, we performed three tests:

1. Roll forward on 11 (out of 110) employees whose leave balances increased/decreased by more than 16 hours between the two reports (maximum accrual is 16 hours) and found:
  - 7 of 11 balances did not roll forward/recalculate.
  - Additionally, we noted 8 negative balances at year end ranging from 12 to 20 hours.
2. Roll forward on 25 (population greater than 250) employees that had no ending personal leave balance at December 31, 2017. We were only able to verify that 20 employees were terminated, retired or used all personal leave during CY17 which aligns with our expectations of no leave balance at year end.

## FINDINGS, RECOMMENDATIONS, RESPONSES

### Leave

(Point Sheet 6)

- 5 of 25 balances did not roll forward/recalculate. two employees had no termination date or payout. Therefore, believe they should have had a balance on the 12/31/17 register.
  
- 3. We tested 25 (population greater than 250) employees that had no beginning balance on June 30, 2017. We verified that eight employees were hired after June 30.
  - 8 of 25 balances did not roll forward/recalculate.
    - 2 of 25 employees had a negative balance at 12/31/17 between .25 and 24 hours.
  - 5 of 25 employees were classified as 12-month full-time employees and should accrue vacation rather than personal leave.
  - 3 of 25 individuals were not on the 6/30/17 register and had an unreasonably large balance over 16 hours on the 12/31/17 register.

Employees fill out a leave slip that is approved by their supervisor. Each payroll the timekeeper enters approved leave into ONESolution. There is no way to verify that all manual leave slips are entered into the system. We noted that leave slips are unique to each location and some did not require approval signature. We also noted some schools used outdated leave slips. IA tested 20 employees for two pay periods (40 payments total) to test absence request procedures. We found the following:

- One payment included overtime because paid leave was counted towards hours worked.
- One leave request did not have approval.
- 13 did not have a time off request.
- Five payments where leave requested was different than the absence entered in ONESolution.

#### **CAUSE(S):**

- No review and approval are performed for the calculation of leave payouts.
- Leave balances are not reviewed or maintained consistently by school payroll personnel.
- Leave balances were not adjusted in October to the maximum accumulation.
- Schools have created their own leave forms which may not require an approval signature.
- Time off requests are processed manually.

#### **EFFECT(S):**

- Incorrect calculations and over/under payment of leave to employees.
- Employee leave balances may not be accurate.
- Employees may have leave balances greater than the maximum accumulation allowed.
- Leave forms do not provide the proper information and approval in accordance with School Board Policies.
- There is no way to verify that all approved leave is entered into the system.

## FINDINGS, RECOMMENDATIONS, RESPONSES

### Leave (Point Sheet 6)

#### **RECOMMENDATION(S):**

We recommend:

18. School Payroll develop a procedure to review and document approval of leave payout calculations.
19. School Finance conduct training with both primary and backup timekeepers to ensure consistency in maintaining leave balances for employees.
20. Payroll enforce school policy to reduce leave balances on October 1<sup>st</sup> of each year to the maximum accumulation amount.
21. School conduct regular training with both primary and backup timekeepers to ensure consistency in forms, tracking and maintaining of payroll records (**repeat finding #18 from report dated 12/22/16**).
22. School Finance and Payroll continue to evaluate the various manual leave requests and determine if there is a more automated process that could be used to request and record leave (**repeat finding #19 from report dated 12/22/16**).

#### **MANAGEMENT'S RESPONSE(S):**

18. *Concur. Payroll Manager, Sharonda Hurt, is responsible for implementing 6/20/19. Leave payouts are currently evaluated during the review of separation paperwork by the payroll manager and will be approved by Director of Finance going forward.*
19. *Concur. Payroll Manager, Sharonda Hurt, is responsible for implementing 9/30/19. Under the given constraints, we will be evaluating training options.*
20. *Concur. Payroll Manager, Sharonda Hurt, and Director of Finance implemented 7/1/2018. This procedure was followed for 2018 and will be going forward.*
21. *Concur. Payroll Manager, Sharonda Hurt, is responsible for implementing 9/30/19. Under the given constraints, we will be evaluating training options.*
22. *Concur. Director of Finance, Paula Aldous, in conjunction with all Department Directors are responsible for implementing 7/1/20. Have identified multiple opportunities. A piece meal approach. For Departments, an internal system has been implemented (Sept 2019 - 760+ employees) for automating leave routing, recording and reconciliation. Smartfind is being evaluated for use for the teacher population (to avoid duplication of efforts - approx 7,000+ employees). TimeClock Plus has been rolled out to facilities and to be implemented by Food Services (July 1,2019). For all opportunities, we are leveraging the uploading capabilities for ONESolution. We must successfully navigate opening upload capabilities in multiple departments.*