DISTRICT'S CENTRALIZED PAYROLL FUNCTION

Provide accurate and timely payments to our employees

ADEQUATE WRITTEN PROCEDURES AND INTERNAL CONTROLS ARE IN PLACE OVER THE PAYROLL FUNCTION, BUT CONTROL PROCEDURES NEED TO BE CONSISTENTLY ADHERED TO

JUNE 2007

Miami-Dade County Public Schools

May 22, 2007

Members of The School Board of Miami-Dade County, Florida
Members of the School Board Audit Committee
Dr. Rudolph F. Crew, Superintendent of Schools

Ladies and Gentlemen:

In accordance with the Audit Plan for the 2006-07 Fiscal Year, we have performed an audit of the District's centralized payroll function for the period of July 1, 2006 through March 16, 2007. The district's annual payroll is approximately $2 billion. The objectives of the audit were to determine whether the internal controls in place are adequate to ensure that payroll practices and reporting comport with established procedures; that terminated employees are timely removed from the payroll roster; and to ascertain whether prior audit recommendations were implemented.

Our audit concluded that, for the most part, payroll transactions are processed and reported in accordance with established procedures. Fourteen (14) of the prior audit recommendations have been implemented. However, there are still four (4) prior audit recommendations pending implementation. One (1) prior audit recommendation was deemed not applicable. Additionally, in a number of cases, separated employees were not removed from the payroll roster in a timely manner by the work locations. A comprehensive exit interview is not conducted with terminated or separated employees and a comprehensive checklist is not used to ensure and acknowledge that all School Board issued property is returned.

Our findings and recommendations were discussed with management. Their responses along with explanations are included herein. As always, we would like to thank management for their cooperation and courtesies extended to our staff during the audit.

Sincerely,

Allen M. Vann, CPA
Chief Auditor

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EXECUTIVE SUMMARY

Based on our audit, we concluded that payroll were calculated accurately and distributed to the proper accounts. Procedures over unclaimed payroll checks are adequately designed and functioning. We also found that employees' voluntary contributions, direct deposit options, changes in fringe benefits and garnishment of employee's wages were processed consistent with their authorized requests.

The payroll function is documented in a policy and procedures manual, which delineates clear and concise procedures. However, there is a significant payroll processing routine, namely, employee leave/termination procedures, which are not covered in the manual. Additionally, we found that the process to detect and/or recover worker's compensation overpayments is cumbersome and time consuming.

We tested for the existence of fictitious employees and found none for the specific locations and payroll period tested. We found that established procedures were followed for adding and removing employees from the payroll roster, but not necessarily in a timely manner at their work locations.

School principals and District administrators were surveyed regarding what occurs when an employee departs from the District. The school principals indicated that they conduct a limited Florida Department of Education-required exit interview of departing teachers to determine their reason for leaving. However, all sixty (60) locations surveyed indicated that they do not consistently conduct comprehensive exit interviews with departing employees or use a comprehensive checklist to ensure all District-issued property are returned.

Finally, we followed up on our prior audit, the Review of the Centralized Payroll Function – April 2003. There were 10 findings comprising 19 recommendations. Fourteen (14) of the 19 recommendations were fully implemented, four (4) have not yet been implemented, and one (1) was deemed not applicable.

Based on our observations, we made 8 recommendations to current audit findings and affirmed four (4) prior audit recommendations requiring implementation. We have received a response from management. Our detailed findings and recommendations start on page 7.

INTERNAL CONTROLS

Our overall evaluation of internal controls for the District's centralize payroll function is summarized in the table below.

INTERNAL CONTROLS RATING			
CRITERIA	SATISFACTORY	NEEDS IMPROVEMENT	INADEQUATE
Process Controls	X		
Policy & Procedures Compliance		X	
Effect		X	
Information Risk	X		
External Risk	X		

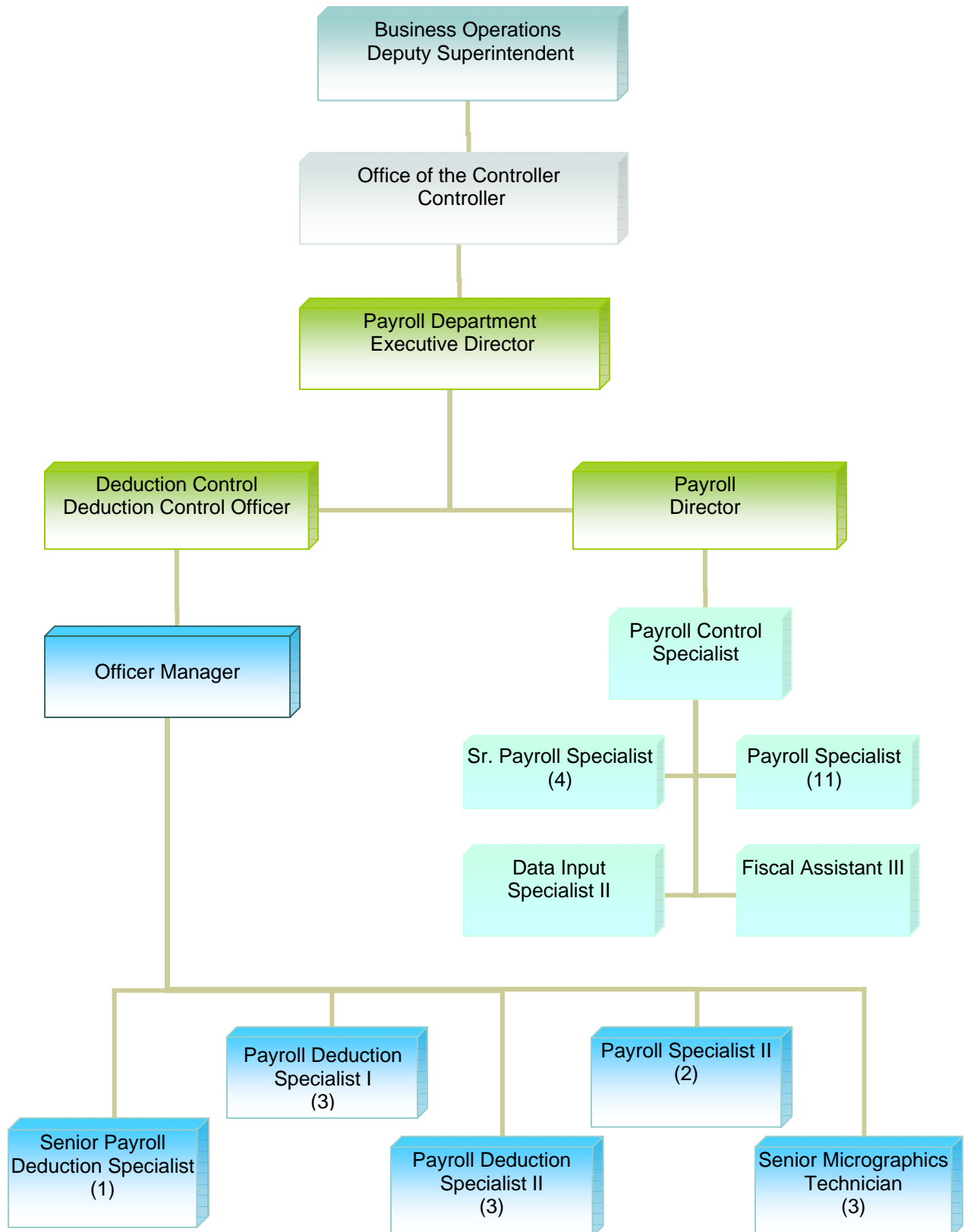| INTERNAL CONTROLS LEGEND			
CRITERIA	SATISFACTORY	NEEDS IMPROVEMENT	INADEQUATE
Process Controls	Effective	Opportunities exist to improve effectiveness.	Do not exist or are not reliable.
Policy & Procedures Compliance	In compliance	Non-Compliance Issues exist.	Non- compliance issues are pervasive, significant, or have severe consequences.
Effect	Not likely to impact operations or program outcomes.	Impact on outcomes contained.	Negative impact on outcomes.
Information Risk	Information systems are reliable.	Data systems are mostly accurate but can be improved.	Systems produce incomplete or inaccurate data which may cause inappropriate financial and operational decisions.
External Risk	None or low.	Potential for damage.	Severe risk of damage.

BACKGROUND

The district's annual payroll is approximately $2 billion, including approximately $144 million in payroll taxes (FICA and Medicare). On average, the bi-weekly payroll cost, excluding employee expense reimbursements and other costs, is $79 million. Eighty-three percent (83%) of the District's employees use direct deposit.

The central payroll department is managed by three administrators – an executive director, a director and a deduction control officer. The current administrative staffs had been in their positions for less than a year at the beginning of the audit period. (See the organizational chart on page 4.) Collectively, there were 35 employees in the central payroll office at the time of our audit.

The District's payroll functions are processed at the various locations and the central payroll office. The various locations input time and attendance data into the Payroll Absence Reporting System (PARS). The central payroll office, which is divided into two units – Payroll and Deduction Control, edits, balances, and corrects each location's payroll. Performing this function in the Payroll unit are 15 specialists (13 actually filled), four (4) of which are seniors who also serve as back-up along with their other routine duties. The payroll specialists all perform essentially the same duties for 24 to 70 different locations each. The tasks typically performed by the payroll specialists include reviewing and/or processing: deferred payment cancellations, erroneous payroll report memorandums, manual checks, overpayments, retroactive pay adjustments, salary adjustment calculations, terminations, transfer transactions, void checks/advices, payroll write-ins and corrections, Bencor payments, deceased payments, Workers' Compensation injury report, IRS request, military payments, sick leave bank awards, uniform allowance, and payroll taxes. The seven (7) payroll deduction specialists in the Deductions Control unit are all responsible for processing voluntary deductions, direct deposits, and life insurance beneficiary changes. The unit also has two (2) payroll specialists who are responsible for processing garnishments and employee travel reimbursements.

PAYROLL DEPARTMENT – ORGANIZATIONAL CHART

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                    Business Operations
                    Deputy Superintendent
                             |
                    Office of the Controller
                    Controller
                             |
                    Payroll Department
                    Executive Director
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Deduction Control — Deduction Control Officer

Payroll — Director

Officer Manager

Payroll Control Specialist

Sr. Payroll Specialist (4)

Payroll Specialist (11)

Data Input Specialist II

Fiscal Assistant III

Payroll Deduction Specialist I (3)

Payroll Specialist II (2)

Senior Payroll Deduction Specialist (1)

Payroll Deduction Specialist II (3)

Senior Micrographics Technician (3)

OBJECTIVES, SCOPE, AND METHODOLOGY

In accordance with the Audit Plan for the 2006-07 Fiscal Year, we have performed a limited scope audit of the District's centralized payroll function for the period of July 1, 2006 through March 16, 2007. The objectives of the audit were to determine whether:

- adequate internal controls are in place to ensure that payroll practices and reporting comport with established procedures;
- terminated employees are timely removed from the payroll roster; and
- prior audit recommendations were implemented;

The scope of our audit was limited to those processes and transactions in place and occurring during the above-stated period that would allow us to achieve our stated audit objectives. We did not examine all facets of the payroll function, including time and attendance data. Procedures performed to satisfy the audit objectives were as follow:

- Interviewed District staff;
- Reviewed operating policies and procedures and applicable Florida Statutes;
- Examined on a sample basis, certain payroll and payroll-related documents;
- Verified and vouched certain payroll calculations;
- Validated payroll rosters;
- Made several site observations and performed a payout;
- Surveyed site administrators;
- Followed up on prior audit recommendations; and
- Performed various other audit procedures as deemed necessary.

Our audit was conducted in accordance with generally accepted governmental auditing standards applicable to performance audits obtained in <u>Government Auditing Standards</u> issued by the Comptroller General of the United States of America. This audit included an assessment of applicable internal controls and compliance with requirements of policies, procedures and School Board Rules to satisfy our audit objectives.

FINDINGS AND RECOMMENDATIONS

GENERAL OBSERVATIONS

The District has clear and concise payroll procedures delineated in its <u>Payroll Processing Procedures Manual</u> (however, see Finding #1 at page 7). The manual provides guidance to both new and existing employees in performing the various payroll-related functions. The District also has procedures in place to validate new employees when hired and added to the payroll roster.

Based on the audit tests performed, we conclude that payroll taxes were calculated accurately and were distributed to the proper accounts. Moreover, other payroll distributions were found to be done properly. Employees' direct deposit options and changes in fringe benefits were processed consistent with their authorized requests. Also, procedures over unclaimed payroll checks are adequately designed and functioning. In fact, the District was found to have gone above and beyond the due diligence required by Florida Department of Financial Services for identifying the owner of escheat property. As of April 30, 2006, $190,448 of escheat property, $136,013 of which is related to payroll transactions, was transferred to Florida Department of Financial Services.

We also performed a payroll certification test and payout to identify the existence of fictitious employees. We found no fictitious employees for the specific locations and payroll period tested.

Payroll specialists are trained on the use of the Payroll Absence Reporting System (PARS) and receive pointed one-on-one tasks-specific instructions when hired. They also receive one-on-one tasks-specific training when new systems or procedures are implemented.

Notwithstanding the above, we refer you to the following sections of the report where our detailed findings and recommendations for improvement are presented.

CURRENT YEAR'S FINDINGS AND RECOMMENDATIONS

1. UPDATE PAYROLL PROCESSING PROCEDURES MANUAL

We performed a test to determine whether adequate procedures exist in processing payments to beneficiaries of deceased employees. Our test concludes that procedures for processing deceased payments are adequate and that payments are processed accordingly. However, while performing our test, we noted that two significant payroll processing routines, namely employee leave/termination and deceased payments procedures are not included in the Payroll Processing Procedures Manual (Manual). Additionally, because the Manual is included as an official School Board Rule (6Gx13-4D-1.09), it necessitates rule making whenever a change is needed. This may result in delaying needed updates to the Manual to include the most up-to-date information.

The District's Payroll Processing Procedures Manual, prepared by both the Payroll Department and the Office of the Controller, provides guidance in performing the various payroll-related functions. As such, it provides clear and concise guidance for both new and existing employees on proper payroll procedures. Notwithstanding, as stated above, the Manual does not contain guidance on employee leave/termination and deceased payments procedures. To its credit, however, the Payroll Department does outline in a separate document some, but not all, of the steps involved in processing deceased payments. Payroll administration has stated that the deceased payment processing procedures were intentionally omitted from the Manual and included in a separate manual of instructions. While we take no exception to the administration's preference on this issue, the existing procedures still need to be updated to align with current practice.

The Manual was last revised August 18, 2004. It should be noted that a prior recommendation from the Review of the Centralized Payroll Function (2003) to revise the Manual to include termination procedures was not implemented.

RECOMMENDATIONS

1.1 **Revise the Payroll Processing Procedures Manual to include leave/termination and align deceased payment procedures to current practice.**

Responsible Department: **Office of the Controller (Payroll Department)**

Management Response: We concur with this recommendation. The Payroll Processing Procedures Manual will be updated to reflect procedures for leave and terminated employees. In addition, the Payroll Department updated the deceased payment procedures in the Internal Manual.

1.2 **Consider proposing excluding the <u>Payroll Processing Procedures Manual</u> from School Board Rule.**

   Responsible Department: **Office of the Controller (Payroll Department)**

   Management Response: This recommendation was discussed with the School Board Attorney's Office who indicated that for the <u>Payroll Processing Procedures Manual</u> to have force and effect it must remain a School Board Rule.

   Auditors' Comment: The force and effect of the <u>Payroll Processing Procedures Manual</u> would be sustained if the manual is incorporated in School Board Rule by reference. Doing this would not establish a precedent.

2. **TIMELY ADD NEW EMPLOYEES AND REMOVE TERMINATED EMPLOYEES FROM THE PAYROLL ROSTER**
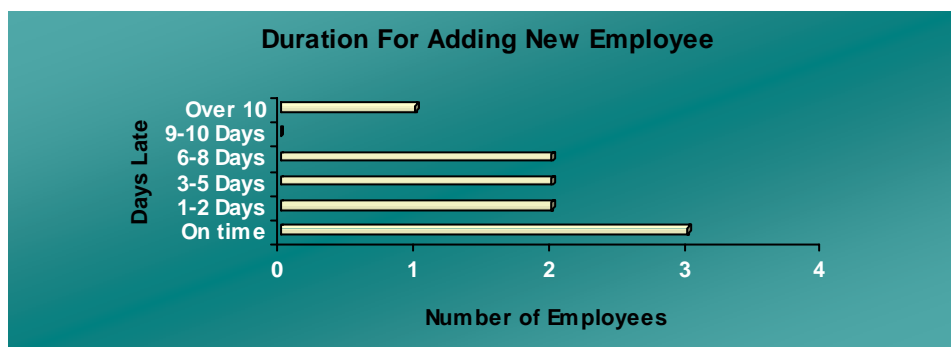
Processing new and departing employees is a critical payroll function. At the School Board, the function is complex and spread out across various departments and locations.

Employee Intake –

Instructional and Non-instructional applicants for new hire must submit an Application for Employment and Application for Non-Instructional Position, respectively, along with documentation (i.e., official transcript, statement of status of eligibility, diploma, social security card, recommendation letters, references, etc.). The applicant's information is entered into the Applicant Tracking System (ATS). After entry into the ATS, it is routed to several departments (Drug Testing, Finger Printing, Compensation Administration, etc.) for approval. The collected information is subsequently stored in the Region Master File and the personnel system. Administrative positions follow a similar process, except that the applicant's information is entered into the ATS only after being approved by the School Board. An applicant is not hired until his/her application is completed, processed, made active in the ATS, and he/she has been properly screened (i.e., fingerprinted and drug tested, if applicable). Effective March 19, 2007, the District adopted new hiring procedures, which prohibits new employees from reporting to work until the RPA (Request for Personnel Action) process is fully approved by the offices involved in the hiring process.

Locations hire new applicants in the ATS by electronically submitting a RPA, for active applications; or after an applicant completes a Restricted Personal Data form, for inactive applications. Applications remain active for six months. Existing/active employees are also hired by submitting an RPA. Once hired, the locations enter the effective date (start date) and board date into the personnel system and the applicant is added to the payroll roster as of the effective date of employment.

We sampled 10 employees from the New/Rehired Full-Time Employees From the RPA Transaction File report to determine if: 1) applications were properly completed in the ATS and 2) locations entered employees into the payroll roster timely. The results indicated that all 10 applications were properly complete in the ATS, but employees were not timely added to the payroll rosters at the locations in all cases. The following conditions were noted:

Duration For Adding New Employee

Days Late	Number of Employees
Over 10	1
9-10 Days	0
6-8 Days	2
3-5 Days	2
1-2 Days	2
On time	3

While most of the above variances are not significant, delay in adding employees to the payroll roster results in increased work evident by the need to process "write-in" (manual transactions) and payroll adjustments.

The effective date is the key to adding employees to the payroll roster. Each pay period has a roster strip date. On this date the system "strips" the roster and creates a payroll roster (hard copy and electronic) that reflects all employees hired prior to the roster strip date. The hard copy roster (sign-in sheet) is sent to the location. Employees hired after the strip date for the corresponding pay period will not appear on the rosters and must manually sign-in. At the time of processing the payroll, a "write-in" is done to add these employees to the roster. The system has controls that will not allow payment to an employee who is not on the roster.

Employee Separation –

Terminations are initiated from several sources:
1) A work location – upon employee's resignation;
2) Instructional Certification – for teachers who do not comply with requirements of the General Knowledge Law;
3) Professional Standards – for material violation of employment; and
4) The Retirement Office – upon employee retirement.

To effect the termination of an employee, staff at one of the appropriate areas listed above enters the termination action into the personnel system, which populates the File Maintenance Report (a/k/a Daily Change Report). Daily, the payroll specialists in the Payroll Department review the Daily Change Report for terminations and update the Payroll Data Card. The Payroll Data Card is essentially then set aside allowing certain employee-related transactions to flow through the system. Final severance payment is delayed for 30 days to allow for accruals and/or payments to be posted. After the 30-days, the Payroll Data Card is reviewed to determine if employee final pay should be adjusted. If adjustment in pay is needed, a form letter is sent to the employee indicating a deduction from his/her future paycheck will be made in accordance with School Board Rule.

We sampled 77 employees from the Termination List for Fiscal Year 2005-2006 to determine whether proper procedures were followed when employees terminated. The circumstances surrounding two employees selected did not allow us to apply our audit test criteria because they did not report to work at the District. The following conditions were noted among the remaining 75 employees tested:

- No payments were issued to employees by locations subsequent to termination date.

- For the 30 cases where the final settlement of employees' account could be tested, the Payroll Department settled the terminated employee's accounts within 30 days for 91% of the cases tested. The remaining 9% were settled

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within 60 days.

- For 18 terminations or 24%, staff at the initiating location did not process the termination action online in a timely manner. For example, in one case, the termination action was entered 42 days after the employee's effective termination date. Consequently, the terminated employee was not removed from the payroll roster used by the locations to compile the payroll in a timely manner (i.e., one pay period). No termination occurred prior to its effective date.

Evident by the test results is the commendable effort the Payroll Department puts forth in timely processing final payments to terminated employees and ensuring that employees do not receive payments other than terminal pay subsequent to their termination dates. On the other hand, also evident by the test results is the need for initiating locations to process termination actions more timely in order for former employees to be removed from the payroll roster. Not removing terminated employees from the payroll roster exposes the District unnecessarily to the risks of payroll fraud.

Duration For Initiating Termination Action Online

Days Late	Number of Employees
Over 21 Days	~2
16-20 Days	~1
11-15 Days	~4
4-10 Days	~11
2-3 Days	~9
1 Days or less	~49
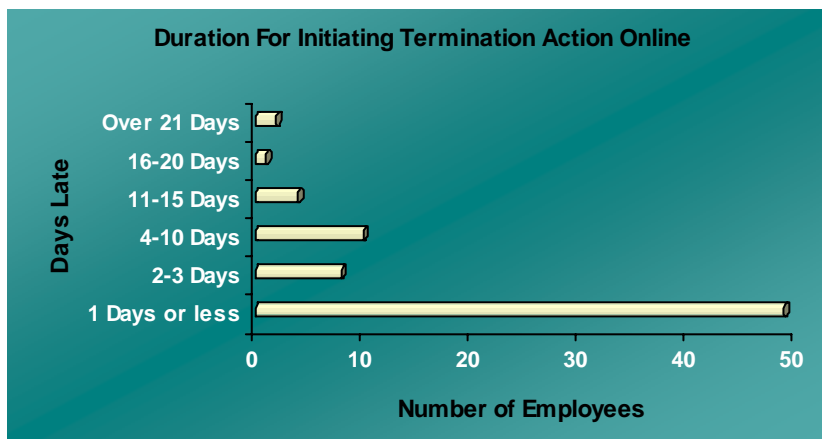
As mentioned previously, our tests performed to identify fictitious employees concluded that there were none found at the locations tested for the specific payroll period. However, while performing those tests, we found further corroborating evidence of the pervasiveness of work locations not removing terminated employees from the payroll roster in a timely

Duration For Removing Employee From Roster

Days Late	Number of Employees
Over 30 Days	~0
26-30 Days	~1
21-25 Days	~1
16-20 Days	~4
11-15 Days	~4
10 Days or less	~63

manner. For example, 83 employees appearing on the payroll rosters certified for six (6) of the 46 locations tested, were identified as terminated or not presently working at the
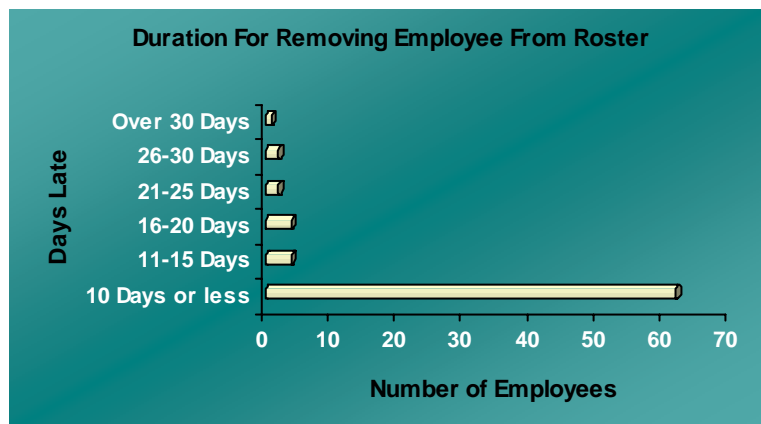
indicated location. At one of these locations, 66 employees appearing on the payroll roster were so identified. We must note that while the majority of the above-mentioned 83 employees were part-time vocational education instructors (45), the pool consists of various categories of full-time (4) and other part-time (34) employees.

According to criteria established by the Payroll Department in response to a prior audit finding, the acceptable range for processing terminations online is within (1) working days from the effective termination date. Terminations processed online between two (2) to three (3) working days from the effective termination date are considered to be needing improvement. Terminations processed online outside of these two ranges are considered to be unacceptable. The Report of Terminations by Location is sent to the applicable locations indicating their performance in processing terminations. Payroll also uses another report, Terminated Part Time Assignments That Have Not Received A Payment For A Period of Four Months to identify part-time employees who are on the payroll roster but have not had any payroll activity for four (4) months. After the fourth month of inactivity, those employees are systematically removed from the roster. The grace period used in this process – four months, appear to be somewhat lengthy.

RECOMMENDATIONS

2.1 **Submit quarterly notices to all locations to review the Report of Terminations by Location and remove employees promptly from the payroll roster upon termination.**

Responsible Department: **Payroll Department**

Management Response: We concur with this recommendation. The Payroll Department will send quarterly "Weekly Briefings" emphasizing the importance of:

1. Processing terminations in the electronic Personnel System on a timely basis, and
2. Reviewing the "Payroll Exception Reports" which include "Report of Terminations by Location".

2.2 **Submit quarterly notices to all locations to add employees to the payroll roster timely.**

Responsible Department: **Payroll Department**

Management Response: As a result of new hiring procedures, this recommendation is no longer valid. Effective March 19, 2007, the District adopted a new hiring procedure, which prohibits new employees from reporting to work until the Request for Personnel Action (RPA) process is fully approved by the offices involved in the hiring process. This new procedure will reduce the need to add employees on the Daily Payroll Attendance Sheet, therefore no notification is necessary.

Auditors' Comment: Relative to new employees being added to the payroll timely, the March 19, 2007 procedures contains a directive prohibiting employees from reporting to work until the full approval process is completed. The directive sought to put into practice what was already expected to be the standard course of action, which was evidently not done with consistency. We concur with the intent of the directive. As indicated in management's response, the directive may have the effect of reducing the need to add employees on the Daily Payroll Attendance Sheet. However, we are not convinced that this will resolve the timeliness issue cited or necessarily prevent a new employee from actually reporting to work prior to the approval process being fully completed. A quarterly notice may have a greater effect of reducing the occurrences noted.

2.3   **Shorten the grace period for inactivity used in the <u>Terminated Part Time Assignments That Have Not Received A Payment For A Period of Four Months</u> report and monitor for compliance.**

Responsible Department: **Payroll Department**

Management Response: We concur with this recommendation.   A service request has been submitted to ITS to modify the current process as follows:
1. Reduce the period of inactivity used in terminating part-time assignments from four months to three months, and
2. Change the criteria to omit the selection of ten-month part-time employees during the months of August and September.

3. **AUTOMATE WORKERS COMPENSATION OVERPAYMENT RECONCILIATION PROCESS**

The Payroll Department, the Office of Risk and Benefits Management, and Compensation Administration have taken the necessary action to develop more effective controls to avoid payroll overpayments. Included in those enhancements is the creation of certain databases used in analyzing workers compensation payments. Nevertheless, the process performed by the Office of Risk and Benefits Management (Risk Management) and Payroll to detect and/or recover worker's compensation overpayments is cumbersome and time consuming. It takes both Risk Management and Payroll 40 hours each week to complete this process.

The process involves Risk Management, Payroll, and Gallagher/Basset, a third-party administrator. Gallagher/Basset produces the <u>WC [Workers Compensation] Payment Select Report</u> about every week. The report shows all workers compensation payments made to employees for a period of time. Risk Management reconciles the report with Gallagher/Basset's "Riskfax.com" database and prepares reconciliations for each payment. These forms, which number about 100 per month, are forwarded to the Payroll Department weekly. Payroll compares each form to the Retirement Earnings Verification Screen (REVS) in the Customer Information Control System (CICS) to determine whether overlapping (overpayment) exists in the same pay period. If an overpayment is detected, Payroll sends a form letter to the employee indicating that there will be a deduction from his/her future paychecks, in accordance with School Board Rule.

RECOMMENDATION

3.1 **Meet with ITS, Risk and Benefits Management, and Gallagher/Basset to determine the feasibility of further automating the workers compensation overpayment process, and do so if it is determined to be feasible.**

Responsible Party: **Payroll Department**

Management Response: Staff determined that further automation of processing overpayments for employees who have received workers' compensation benefits is not feasible. This is because the Board's payroll/personnel system is separate and distinct from the Board's third party claims administration system (Gallagher Bassett/Risx-Facs). These systems are independent due to reporting requirements by the State of Florida Division of Workers' Compensation, the district's excess workers' compensation carrier.

Based upon Chapter 440, Florida Statutes and district labor contracts, employees are entitled to be paid Statutory benefits from Gallagher Bassett and salary from the district. As a result sometimes overpayments occur and they must be manually adjusted since the payment systems are not integrated.

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There are current initiatives underway with Gallagher Bassett to limit the occurrence of overpayments including the creation of software to limit duplicate pay dates will reduce the number of required manual adjustments.

Auditors' Comment: We acknowledge the current initiatives with Gallagher Bassett to introduce an automated solution through software implementation. We will monitor the implementation efforts cited by management.

4. FACILITATE EMPLOYEE UPDATE OF BENEFICIARY INFORMATION ANNUALLY

While performing a test to determine whether adequate procedures exist in processing payments to beneficiaries of deceased employees, we noted that employee's beneficiary information is collected through various avenues and forms. Beneficiary information for some benefits, namely, employee paid "flexplan" such as accidental death and dismemberment requires employees to designate their beneficiaries at least annually. However, beneficiary information for School Board-paid life insurance does not require annual update. Hence, employees might not be aware of the need to specifically update their beneficiary to School Board-paid life insurance as life conditions change.

At the time of hire and the initial selection of employee benefits, an employee is required to select a beneficiary or beneficiaries for applicable Board-paid and employee-paid fringe benefits. Upon death, the rules of distribution of remainder benefits vary depending on the type of benefit. For example, pension benefits are paid to a surviving spouse, pursuant to state law; while life and AD&D benefits are paid to named beneficiary. An employee's beneficiary may vary for different benefits, depending on his/her choice. The beneficiary chosen when first employed by the School Board may also be different from an employee's other current beneficiaries.

RECOMMENDATION

4.1 Coordinate with Risk and Benefits Management and ITS to explore the feasibility of providing an online portal where employees could access and update all beneficiary information annually.

> **Responsible Department:** Office of the Controller (Payroll Department)
>
> **Management Response:** We concur with this recommendation. A service request has been submitted to ITS to make available and accessible through the M-DCPS Employee Portal, beneficiary forms for employee benefits, including offered life insurance programs; Florida Retirement System (FRS); supplemental retirement programs (403(b), 401(k), 457, 401(a), etc.); disability programs; and accidental death and dismemberment (AD&D). Having the entity-specific forms consolidated in one place will provide employees the ability to download the forms, update their information, and forward them to the appropriate company. Employees will periodically receive reminders to update their applicable beneficiary information.

**5.   IMPLEMENT STANDARD EMPLOYEE
       EXIT INTERVIEW AND CHECKLIST**

District locations do not consistently conduct exit interviews with separated employees and where interviews are conducted, those interviews are not comprehensive. Additionally, a comprehensive checklist is not used to ensure the return of all District property. Exit interviews are a recognized best practice used to obtain valuable information about an employee's work experience and suggestions that could improve an organization's operations. Therefore, improvement opportunities could be missed if such interviews are not conducted prior to employee's termination/separation.

On July 1, 2000, the Florida Department of Education (FDOE) mandated school district's to conduct exit interviews for every teacher leaving the classroom. Teachers must complete the Exit Interview Questionnaire online prior to termination/separation.

We sampled 61 principals and department heads at corresponding locations where employees were recently terminated to determine if exit interviews other than what is required by DOE were conducted. We received 60 responses. The following conditions were noted:

A. Forty-two (42) locations or 70% did not perform exit interviews adequately prior to employee's termination/separation. Most locations merely asked why the employee is leaving.

B. All locations indicated access to M-DCPS computer systems was disabled in a timely manner upon employee's termination/separation.

C. All locations indicated procedures were in place to collect M-DCPS equipment upon employee's termination/separation. The most commonly stated items collected were vehicles, keys, computers, and badges.

D. Fifty-three (53) locations or 88% did not have an adequate checklist in place to ensure procedures were followed upon employee termination/separation.

E. Forty (40) locations or 67% indicated they were not aware of procedures being in place to collect balances owed to the District (i.e., overpayments, unearned sick/vacation leave, etc.) from employees at the time of termination/separation.

F. Fifty-seven (57) locations or 95% indicated that terminated/separated employees were not required to sign an acknowledgement attesting to the adherence of the foregoing procedures upon termination/separation.

Because of the conflicting responses presented in items C and D above, we contacted school principals, most of who stated that they utilize the Closing of School Year Checklists. The checklist is used to document the return of classroom items, such as classroom roll, curriculum textbook, grade book, report card, etc. The checklist did not

address items, such as cell phone, Blackberry, computer, keys, fuel card, pager, procurement card, vehicle, etc.

The following comments and suggestions were received from surveyed locations:

- "A uniform set of procedures would be helpful."
- "Policies and procedures should be established district-wide to formalize exit interviews and ensure that district property is returned."
- "Need a unified process that is easy to understand as we complete (on-line preferable)."
- "There should be an employee exit interview with the District Office."
- "A set of guidelines should be established as well as exit surveys to more effectively manage this process."
- "Forms should be standardized for all schools."
- "There should be a common form for all schools."
- "A formalize checklists would be helpful."
- "Standardizing a form/checklist and making this available to all schools and departments would facilitate the above procedures."
- "A district-wide policy with specific protocols would be suggested to put all locations on the same page."
- "Could use some suggestions regarding these issues."
- "A workshop reviewing examples of formal exit documents and common language for the return of District or departmental equipment and/or materials would be beneficial."
- "Develop a more user friendly site administrator system of assigning/reassigning pager's/blackberry's to employees at the location that can be accurate and updated rather than dealing with office downtown."
- "Do not advance employees unearned days. Use barcodes on ID badges that can be disabled."

RECOMMENDATION

5.1   Implement a standard comprehensive employee exit interview process and a standard comprehensive checklist for employee's signature to be used in collecting District property from employee upon termination/separation.

Responsible Party: **Office of Human Resources**

Management Response: The Office of Human Resources, Recruitment and Performance Management is in the process of developing an exit interview instrument to be administered to all full-time employees beginning in Fall 2007.

A comprehensive checklist of equipment and functional items is also being developed to be signed by all employees beginning in Fall 2007.

PRIOR YEAR'S FINDINGS AND RECOMMENDATIONS

There were 10 findings comprising 19 recommendations outlined in the Review of the Centralized Payroll Function – April 2003. Of the 19 recommendations, 14 were fully implemented, four (4) have not yet been implemented, and one (1) was deemed no longer applicable. The following table summaries the status of the recommendations:

	Review of the Centralized Payroll Function – April 2003		
Audit Finding	Recommendations	Corrective Action – Management Response	Auditors' Comments
1. Automate The Payroll Function Further	1.1 Develop a plan to automate the processing of various manual payroll payments and transactions.	**Corrective Action: None** **Management Response:** It is anticipated that the SAP software for ERP that is scheduled for implementation in 2009 will automate the various manual payroll payments and transactions. Additionally, due to the resource requirements associated with the ERP implementation, ITS is not modifying any Personnel/Payroll or other mainframe legacy applications unless it is required by federal, state, Florida Statutes, School Board Rules, or Labor Contracts.	**Status – Not Implemented** Management and/or ITS has given a low priority to this recommendation, given the available resources. The initial estimated completion date given by management is December 31, 2020. However, they believe the planned ERP will address the needed changes and the estimated ERP completion date is the latest possible date to complete the automation of this payroll process. Our recommendation stands and staff has agreed to review the recommendation to determine the automation project scope and prioritize this based on the value and controls to the District.
2. Develop Smarter Reports To Flag Significant Payroll Exceptions	2.1 Work with ITS to revise various payroll exception reports to reduce workload required to review the questioned payroll transactions.	**Corrective Action:** Modifications to 10 reports were completed October 2003.	**Status – Implemented**
3. Enhance Controls Over The Termination	3.1 Revise Payroll Processing Procedures Manual to more clearly require that employees	**Corrective Action: None**	**Status – Not Implemented** Recommendation is still valid. Also, see current year's recommendation 1.1 to include the complete termination

Review of the Centralized Payroll Function – April 2003

Audit Finding	Recommendations	Corrective Action – Management Response	Auditors' Comments
Process	be immediately terminated on the electronic personnel system.	**Management Response:** The Payroll Processing Procedures Manual will be updated to emphasize the importance of processing the terminations in the electronic Personnel System on a timely basis.	procedures in the manual.
	3.2 Revise attendance procedures to require terminated employees be marked absent on their effective date of termination and require site administrator's timely electronic approval.	**Corrective Action:** Report of Terminations By Location was developed in June 2003 to indicate the time taken to process termination transactions and is received by Payroll and the Office of Management and Compliance Audits monthly.	**Status - Implemented**
	3.3 Enhance the Terminated Employee Requesting Payment After Termination Date report to detect payments to terminated employees, their work location, and pay code after the employee's effective termination date.	**Corrective Action:** Report of Receiving Employees Payment After Assignment is Terminated was developed in June 2003 to indicate payments made to employees when a retroactive termination date has been entered. Payroll receives this report after every payroll.	**Status – Implemented** The termination process was followed-up in greater detail during this audit. See Finding #2 for results and recommendation.
4. Improve Controls Over the Payroll of Emergency Substitutes (Temporary Instructors)	4.1 Revise payroll procedures to require that emergency substitutes sign-in on Daily Attendance Payroll Sheet.	**Corrective Action: None** **Management Response:** The Payroll Processing Procedures Manual will be revised to require that temporary instructors sign-in and out on the Temporary Instructors	**Status – Not Implemented** Recommendation is still valid.

Audit Finding	Recommendations	Corrective Action – Management Response	Auditors' Comments
		Daily Payroll Attendance Sheet (FM-7090).	**Status – Implemented**
	4.2 Require backup documentation to support charges by one location to another location's account structure for emergency substitutes.	**Corrective Action:** Substitutes Charged to Your Location By Another Location report developed June 2003 to review substitutes charged to work locations, but not entered that locations transaction.	
	4.3 Require approval of charged location for charges made by another location against its account structure.	Payroll Department compiled a list of locations to block from being entered as a charge location.	**Status – Implemented**
5. Enhance Controls Over The Review of Travel Reimbursements	5.1 Revise Travel Policies & Procedures Manual to clearly exclude daily commuting miles from in-county travel expense reimbursement and to require supervisor's validation.	**Corrective Action:** The Travel Policies & Procedures Manual was revised to include provisions of the recommendation. Furthermore, Voucher For Reimbursement of In-County Travel (FM-0148) Revised (01-06).	**Status – Implemented**
	5.2 Establish a procedure to allow certain employees to receive monthly travel allowance and to periodically inform employees of the procedures.	**Corrective Action:** Letter informing employees/administrators of applicable policies and procedures.	**Status - No longer applicable** The complexities involved in implementing this recommendation make it impractical.
6. Strengthen Controls Over Payroll Write-Ins or Corrections	6.1 Request ITS to enhance the PARS roster edit screen to prevent employees from entering payroll corrections for themselves.	**Corrective Action:** Roster Approved By Alternative Approver report was developed in September 2003 in response to this	**Status – Implemented** The report flags employees entering payroll corrections for themselves; and certain other transactions not approved by the principal/site administrator.

Review of the Centralized Payroll Function – April 2003

Audit Finding	Recommendations	Corrective Action – Management Response	Auditors' Comments
7. Strengthen Controls Over Changes in Employee's Beneficiaries	7.1 Require that certain deduction and beneficiary changes be supported by documentation evidencing the District's due diligence.	recommendation. **Corrective Action:** Change of Beneficiary On Life Insurance (FM-2329) form was revised. The form must be notarized and indicate percentage.	**Status - Implemented**
8. Establish A Training Program For New Payroll Clerks	8.1 Develop a report to identify new payroll clerks in order to assure that these employees receive the proper training on a timely basis and review the adequacy of the training material.	**Corrective Action:** The Security Access Update Report was developed to alert administrator that designated person may need training. ITS has made available to clerks 12 PARS (mainframe payroll) classes since the audit recommendation.	**Status – Implemented**
9. Enhance Controls Over The Payment of Supplements And Stipends	9.1 Establish a joint committee of labor and management to analyze and reduce the number of supplements payments.	**Corrective Action:** Committee was established.	**Status – Implemented**
	9.2 Enhance the payroll system to enable it to screen for the eligibility of supplements, stipends, and allowances.	**Corrective Action:** The Alternative Stipends for Alternative Education report was created and previously existing reports were modified in May 2003.	**Status – Implemented** A subsequent internal audit of Compensation Administration identified continued weaknesses in the supplements and stipends process.
10. Develop More Effective Controls To Avoid Payroll Overpayments	10.1 Review and revise the current preventive and detective controls to prevent the most common overpayments.	**Corrective Action:** A message is sent through the online PARS system to the payroll clerk and approving administrator when reporting employee for unearned sick/personal days.	**Status - Implemented**
	10.2 Automate the process of reviewing the last paycheck against the remaining leave	**Corrective Action:** A process was put in place to reconcile workers compensation	**Status - Implemented**

Review of the Centralized Payroll Function – April 2003			
Audit Finding	Recommendations	Corrective Action – Management Response	Auditors' Comments
	balance to avoid overpayments to separated employees.	payments with Risk Management, Payroll and the third party administrator, Gallagher Bassett.	
	10.3 Automate the process of reviewing workers' compensation payments to help reduce overpayments.	**Corrective Action: None** **Management Response:** See response to recommendation 3.1 of detailed findings on pages 14 and 15.	**Status – Partially Implemented** Certain databases were created to assist with analyzing workers compensation payments; however, further automation is needed. See Audit Finding #3.
	10.4 Implement tighter collection procedures in Compensation Administration to recover overpayment in a timelier manner.	**Corrective Action:** The overpayment process was updated in the Payroll Processing Procedures Manual.	**Status - Implemented**

The various manual payroll-related processes cited result in substantial cost to the District in terms of staff hours. For example, staff reported routinely processing 5,000 bi-weekly adjustment-to-gross transactions, which include salary adjustments, stipend payments, terminal sick/vacation payments, payroll corrections, etc.; 15,000 adjustments to setup annual retroactive supplements; 30,000 transactions for Florida School Recognition Awards, Sick Leave Cash-in, Alternative Education Stipend, Perfect Attendance, etc.; 30,000 transactions to reimburse employees for travel, tool allowance, tuition, license, uniform allowances, retiree incentives, etc.; and up to 100,000 transactions if labor contract negotiations result in retroactive salary adjustments. Some of these processes are partially automated, however, the Payroll Department reports spending 60 % of its time reviewing, calculating, processing, and checking the various manual payments. The work sites also spend time preparing and reviewing some of the payments. According to Payroll provided information, bi-weekly adjustment-to-gross transactions take 110 work hours. The District is currently progressing on an Enterprise Resource Planning (ERP) system that would automate most financial processes including payroll. The automated system for this process would likely generate savings over time, reduce errors and provide enhanced controls.

M E M O R A N D U M   OSP:M144
                                                                      May 16, 2007
                                                          OSP: 305-995-1225

TO: Mr. Allen Vann, Chief Auditor

FROM: Ofelia San Pedro, Deputy Superintendent *OSP*
               Business Operations

SUBJECT: INTERNAL AUDIT – CENTRALIZED PAYROLL FUNCTION

Attached please find the administrative responses to the findings and recommendations
of the Internal Audit Report – Audit of Centralized Payroll Function.

 If you have any questions please contact Ms. Connie Pou, Controller, at 305-995-2001.

OSP:di
Attachment

cc: Ms. Connie Pou
       Ms. Susan Lilly

**AUDIT OF CENTRALIZED PAYROLL FUNCTION
MANAGEMENT RESPONSES**

1. UPDATE PAYROLL PROCESSING PROCEDURE MANUAL

1.1 Revise the <u>Payroll Processing Procedures Manual</u> to include leave/termination and align deceased payment procedures to current practice.

Management Response:

We concur with this recommendation. The <u>Payroll Processing Procedures Manual</u> will be updated to reflect procedures for leave and terminated employees. In addition, the Payroll Department updated the deceased payment procedures in the <u>Internal Manual.</u>

1.2 Consider proposing excluding the <u>Payroll Processing Procedures Manual</u> from School Board Rule.

Management Response:

This recommendation was discussed with the School Board Attorney's Office who indicated that for the <u>Payroll Processing Procedures Manual</u> to have force and effect it must remain a School Board Rule.

2. TIMELY ADD NEW EMPLOYEES AND REMOVE TERMINATED EMPLOYEES FROM THE PAYROLL ROSTER

2.1 Submit quarterly notices to all locations to review the <u>Report of Terminations by Location</u> and remove employees promptly from the payroll roster upon termination.

Management Response:

We concur with this recommendation. The Payroll Department will send quarterly "Weekly Briefings" emphasizing the importance of:

1. Processing terminations in the electronic Personnel System on a timely basis, and
2. Reviewing the "Payroll Exception Reports" which include "Report of Terminations by Location".

2.2   Submit quarterly notices to all locations to add employees to the payroll roster timely.

Management Response:

As a result of new hiring procedures, this recommendation is no longer valid. Effective March 19, 2007, the District adopted a new hiring procedure, which prohibits new employees from reporting to work until the Request for Personnel Action (RPA) process is fully approved by the offices involved in the hiring process. This new procedure will reduce the need to add employees on the Daily Payroll Attendance Sheet, therefore no notification is necessary.

2.3   Shorten the grace period for inactivity used in the <u>Terminated Part Time Assignments That Have Not Received A Payment For a Period of Four Months</u> report and monitor for compliance.

Management Response:

We concur with this recommendation. A service request has been submitted to ITS to modify the current process as follows:

1.   Reduce the period of inactivity used in terminating part-time assignments from four months to three months, and
2.   Change the criteria to omit the selection of ten-month part-time employees during the months of August and September.

3.   AUTOMATE WORKERS COMPENSATION OVERPAYMENT RECONCILIATION PROCESS

3.1   Meet with ITS, Risk and Benefits Management, and Gallagher/Basset to determine the feasibility of further automating the workers compensation overpayment process, and do so if it is determined to be feasible.

Management Response:

Staff determined that further automation of processing overpayments for employees who have received workers' compensation benefits is not feasible. This is because the Board's payroll/personnel system is separate and distinct from the Board's third party claims administration system (Gallagher Bassett/Risx-Facs). These systems are independent

due to reporting requirements by the State of Florida Division of Workers' Compensation, the district's excess workers' compensation carrier.

Based upon Chapter 440, Florida Statutes and district labor contracts, employees are entitled to be paid Statutory benefits from Gallagher Bassett and salary from the district. As a result sometimes overpayments occur and they must be manually adjusted since the payment systems are not integrated.

There are current initiatives underway with Gallagher Bassett to limit the occurrence of overpayments including the creation of software to limit duplicate pay dates will reduce the number of required manual adjustments.

4. **FACILITATE EMPLOYEE UPDATE OF BENEFICIARY INFORMATION ANNUALLY**

4.1 **Coordinate with the Offices of Risk and Benefits Management and Information Technology to identify opportunities for employees to readily access beneficiary forms in order to keep the information updated.**

Management Response:

We concur with this recommendation. A service request has been submitted to ITS to make available and accessible through the M-DCPS Employee Portal, beneficiary forms for employee benefits, including offered life insurance programs; Florida Retirement System (FRS); supplemental retirement programs (403(b), 401(k), 457, 401(a), etc.); disability programs; and accidental death and dismemberment (AD&D). Having the entity-specific forms consolidated in one place will provide employees the ability to download the forms, update their information, and forward them to the appropriate company. Employees will periodically receive reminders to update their applicable beneficiary information.

Prior Year Findings and Recommendations

1.1   Automate the Payroll Function Further

Management Response:

It is anticipated that the SAP software for ERP that is scheduled for implementation in 2009 will automate the various manual payroll payments and transactions.   Additionally, due to the resource requirements associated with the ERP implementation, ITS is not modifying any Personnel/Payroll or other mainframe legacy applications unless it is required by federal, state, Florida Statutes, School Board Rules, or Labor Contracts.

3.1   Enhance Controls Over the Termination Process

Management Response:

The Payroll Processing Procedures Manual will be updated to emphasize the importance of processing the terminations in the electronic Personnel System on a timely basis.

4.1   Improve Controls Over the Payroll Emergency Substitutes (Temporary Instructors)

Management Response:

The Payroll Processing Procedures Manual will be revised to require that temporary instructors sign-in and out on the Temporary Instructors Daily Payroll Attendance Sheet (FM-7090).

M E M O R A N D U M   May 22, 2007

TO: Mr. Trevor Williams, Assistant Chief
                 Operational Audits

FROM: Vera A. Hirsh, Assistant Superintendent
                 Office of Human Resources, Recruiting, and Performance Management

SUBJECT: RESPONSE TO AUDIT FINDINGS

The Office of Human Resources, Recruitment and Performance Management is in the process of developing an exit interview instrument to be administered to all full-time employees beginning in Fall 2007.

A comprehensive checklist of equipment and functional items is also being developed to be signed by all employees beginning in Fall 2007.

VAH:ml
M0326

cc: Ms. Carolyn Spaht
       Mr. Allen Vann

The School Board of Miami-Dade County, Florida, adheres to a policy of nondiscrimination in employment and educational programs/activities and programs/activities receiving Federal financial assistance from the Department of Education, and strives affirmatively to provide equal opportunity for all as required by:

Title VI of the Civil Rights Act of 1964 - prohibits discrimination on the basis of race, color, religion, or national origin.

Title VII of the Civil Rights Act of 1964, as amended - prohibits discrimination in employment on the basis of race, color, religion, gender, or national origin.

Title IX of the Education Amendments of 1972 - prohibits discrimination on the basis of gender.

Age Discrimination in Employment Act of 1967 (ADEA), as amended - prohibits discrimination on the basis of age with respect to individuals who are at least 40.

The Equal Pay Act of 1963, as amended - prohibits sex discrimination in payment of wages to women and men performing substantially equal work in the same establishment.

Section 504 of the Rehabilitation Act of 1973 - prohibits discrimination against the disabled.

Americans with Disabilities Act of 1990 (ADA) - prohibits discrimination against individuals with disabilities in employment, public service, public accommodations and telecommunications.

The Family and Medical Leave Act of 1993 (FMLA) - requires covered employers to provide up to 12 weeks of unpaid, job-protected leave to "eligible" employees for certain family and medical reasons.

The Pregnancy Discrimination Act of 1978 - prohibits discrimination in employment on the basis of pregnancy, childbirth, or related medical conditions.

Florida Educational Equity Act (FEEA) - prohibits discrimination on the basis of race, gender, national origin, marital status, or handicap against a student or employee.

Florida Civil Rights Act of 1992 - secures for all individuals within the state freedom from discrimination because of race, color, religion, sex, national origin, age, handicap, or marital status.

School Board Rules 6Gx13- 4A-1.01, 6Gx13- 4A-1.32, and 6Gx13- 5D-1.10 - prohibit harassment and/or discrimination against a student or employee on the basis of gender, race, color, religion, ethnic or national origin, political beliefs, marital status, age, sexual orientation, social and family background, linguistic preference, pregnancy, or disability.

Veterans are provided re-employment rights in accordance with P.L. 93-508 (Federal Law) and Section 295.07 (Florida Statutes), which stipulate categorical preferences for employment.