

Date: November 9, 2017

For ACTION _____

For INFORMATION X

Board Agenda: Yes X
No _____

FROM: Michael Herbstman, Chief Financial Officer
Michael Covington, Director of Accounting

THROUGH: Dr. Lois Berlin, Interim Superintendent of Schools

TO: The Honorable Ramee A. Gentry, Chair, and Members of the Alexandria City School Board

TOPIC: **Payroll Performance Audit Update on Recommendations**

BACKGROUND:

After an outside consultant completed a Risk Assessment of ACPS, the School Board approved funding in the FY 2016 Combined-Funds Budget for an internal audit program. In the spring of 2016, the School Board awarded a contract to Gibson Consulting Group to conduct audits in the following areas: Procurement, Facilities, and Payroll.

The Payroll audit began in May 2017 and was substantially completed in September 2017. The Final Audit Report, including management responses was completed in October 2017.

Additionally, in September 2016, ACPS convened a working group of Financial Services, Human Resources and Technology Services leadership staff to streamline division-wide payroll processes and systems. This working group has identified and started to address many of the same subjects subsequently discussed in the Gibson Performance Audit. This working group will be primarily responsible for continued implementation of payroll process and systems improvements including those identified in the Gibson Performance Audit.

SUMMARY:

Below are the audit recommendations and management responses (including target completion dates).

Recommendation 1: Evaluate opportunities to streamline the payroll process.

Management Response: We agree with the finding and are currently reviewing our processes in TCP/Munis workgroup meetings to minimize manual processes and automate data entry as much as possible. One specific area that we plan to test is the TCP capability for Transportation overtime. Also, we plan on further testing the import of Summer School hours via an excel file or TCP. In order to implement this, we will run a parallel payroll in Test for 6-8 pay periods to address exceptions. However, in our current set up, some manual timesheets are unavoidable. Teachers and Paraprofessionals working in

programs/activities outside their contract hours are required to submit timesheets because these hours cannot be captured in TCP as they have different account codes and rates from the employees' contract pay.

Target Completion Date: This is an ongoing process and significant progress has already been made as of October 2017. ACPS management will continue to report out on progress.

Recommendation 2: Conduct an analytical review of all overtime, including historical trends and extra duty hours, to ensure appropriateness.

Management Response: We agree with the above finding and will review our procedures for analyzing trends in our earnings categories. We will provide overtime reports to managers and supervisors on a quarterly basis so that they can analyze overtime trends and determine whether corrective action steps are needed. This may include redistributing work amongst current employees or hiring new staff to mitigate overtime costs. We will also train Managers on how to run overtime reports in TCP.

Target Completion Date: February 2018

Recommendation 3: Require all employees to enroll in direct deposit.

Management Response: We agree with the finding. Our TCP/Munis workgroup will review the timeline for implementing this requirement. We plan to make direct deposit enrollment mandatory by June 2018, ahead of the start of FY 2019. We will provide adequate notification to all employees and give sufficient time for them to open accounts, as necessary, and complete all paperwork before the requirement is made mandatory.

Target Completion Date: June 2018

Recommendation 4: Implement performance measures to monitor the payroll function's efficiency.

Management Response: We agree with the finding and will identify key performance measures to monitor the efficiency of our payroll processes. As suggested, the following will be among the specific measures:

- Overtime hours per payroll employee.
- Number of payroll runs per month/ Number of off-cycle payments.
- Number of overpayments/underpayments issued.

Target Completion Date: November 2017

Recommendation 5: Update the division payroll manual to reflect all current procedures.

Management Response: We agree with the finding and plan to review the manual on a biannual basis to ensure that it remains current. We recognize that the Payroll Manual will need ongoing updates due to amendments in ACPS policy, State and Federal law and other applicable changes.

Target Completion Date: Fully implemented by October 2017; Next scheduled biannual update will be April 2018

Recommendation 6: Reduce the number of off-cycle payroll runs/warrants.

Management Response: We agree with the finding. The TCP/Munis work group will review the factors contributing towards the off-cycle warrants and help provide guidelines to minimize them. We plan to create a list of acceptable reasons for Supplemental checks. The list must be approved by the Superintendent and communicated to all employees. To increase transparency and accountability, all Supplemental Checks will require approval by department heads. By publishing and adhering to guidelines outlining the circumstances under which supplemental checks are issued, we will reduce the number of off cycle check requests.

Target Completion Date: April 2018

Recommendation 7: Implement controls to eliminate late time reporting.

Management Response: We agree with the finding and will review our processes to encourage prompt timesheet submissions. The process changes will be aimed at ensuring that all employees and managers are knowledgeable about the Payroll Schedule and deadlines. Payroll and Human Resources will work collaboratively to explore disciplinary action for employees as well as managers turning in late timesheets.

Target Completion Date: June 2018

Recommendation 8: Implement controls to ensure that stop payment orders are implemented for all checks that are reissued.

Management Response: We agree with the finding and plan to change our process for reissue of stale-dated checks. In the past, we accepted bank confirmations that stale dated checks were no longer active. This practice did not result in any erroneous payments. However, we agree that processing a stop payment, in all such instances, is a better practice. Going forward, before we reissue a check, we will process a stop payment order even if the bank has declared the check inactive.

Target Completion Date: Fully implemented by October 2017

Recommendation 9: Enhance supervisory review procedures for all payout calculations.

Management Response: We agree with the finding. Human Resources and Payroll will work collaboratively to enact additional supervisory review procedures including using the automated contract payout calculation feature in Tyler Munis.

Target Completion Date: May 2018

Recommendation 10: Implement controls to consistently record coaching compensation and student activity stipend pay under related pay types within MUNIS.

Management Response: We agree with the finding. For clarity and consistency, pay types 172 through 180 will be used for all coaching assignments going forward.

Target Completion Date: Fully implemented by October 2017

Recommendation 11: Implement controls to ensure that all employees who receive a monetary supplement for middle school and club sports assignments receive separate contracts executed by the School Board, as outlined by School Board Policy.

Management Response: We agree with the finding that all employees should receive separate contracts/letters for all athletic/coaching assignments, including assignments for middle school club sports. Coaching contracts will be issued for middle club sports going forward.

Target Completion Date: Fully implemented by October 2017

RECOMMENDATION: The Superintendent recommends that the School Board reviews the Payroll Audit Report and the management responses to the audit recommendations.

CONTACT PERSON: Michael Herbstman, Chief Financial Officer

ATTACHMENTS: Payroll Audit Report