



MEMORANDUM

TO: Audit Committee of the School Board of the City of Virginia Beach

FROM: Ms. Karen W. Woodson, CIA, CFE ^{KW}
School Board Internal Auditor, Department of Internal Audit

SUBJECT: Ghost Employees Audit

DATE: February 2, 2024

BACKGROUND

As part of the 2023 Audit Work Plan, the Department of Internal Audit (IA) has performed a Ghost Employees Audit.

The Office of Business Services (OBS) oversees the Office of Payroll and Time and Attendance (Payroll). The purpose of Payroll is to process payroll and employee reimbursements accurately, timely, and confidentially. The Department of Human Resources (HR) oversees the Office of Employment Services (ES) and the Office of Employee Relations (ER). HR processes the paperwork when an employee is hired or separates from service in WISE (VBCPS's Human Resources and Payroll system) and ensures all required documents are added to the employee's personnel file. Once ES enters an employee in WISE, the employee records hours worked on a timesheet, which is then entered into WISE and approved by their supervisor. Payroll processes payments to employees using the WISE information. This segregation of duties will prevent an employee from being entered into the system if they have not been hired and also prevents an employee from being paid without approval.

Payroll and HR each handle specific processes when an employee separates from service. This process is as follows:

- HR requires employees to complete and sign a Separation of Employment form;
- HR reviews the form and prepares a separation from service packet for the employee;
- HR updates the employee's status in WISE with a separation date to indicate the date the employee is no longer working but will be able to get final leave and wage payout;
- A separated employee's status will be changed from working to the following:
 - Not working but still able to receive payments; and finally
 - Not working and not able to receive payments.

BACKGROUND, CONTINUED

- ER calculates the final leave payout, and Payroll calculates the final wage payout; and
- Payroll monitors if an employee is overpaid after separating from service and provides the overpayment amount to HR. HR sends a memo to the employee that identifies how much was overpaid and requests that the employee coordinate with Payroll to make a re-payment;
 - Overpayments can be caused by but are not limited to the following: contracted employees are paid current, not in arrears; notification to HR about separation from service is not timely; and employee is paid for leave they do not have.

AUDIT OBJECTIVES, METHODOLOGY, RESULTS, AND CONCLUSIONS

Inquiry and examination of documents and data, as well as site visits, were the methods of reviewing internal controls. The audit period was September 1, 2022, through September 30, 2023.

IA conducted this audit primarily to determine if payments were made to actual employees who perform work. All employees paid in a non-pay status were evaluated. The results are representative of the total population of employees paid in a non-pay status. The audit objectives, methodology, results, and conclusions are as follows:

1. Objective:

Determine if there are names on VBCPS' payroll to whom paychecks are issued but who are not actual employees and do not perform any work.

Methodology:

A) IA received a report from WISE with all payments made to employees during the audit period and the employee's status at the time of payment and reviewed all employees paid in a non-pay status. IA reviewed payments made to 410 employees in a non-pay status to determine if payment was made due to a timing issue or another justified reason.

Results:

IA determined that two out of 410 employees appeared to be paid in a non-pay status due to a keying error which made the employees appear to be in a non-pay status but were actually active employees.

Methodology:

B) IA reviewed overpayment memos for 410 employees paid in a non-pay status, if applicable, and determined if the overpayment was repaid to VBCPS.

Results:

IA determined that 13 out of 410 employees reviewed were overpaid, and 11 of the 13 employees repaid the overpayment. The total amount overpaid was \$10,693.64, and the amount re-paid to VBCPS was \$7,969.05.

AUDIT OBJECTIVES, METHODOLOGY, RESULTS, AND CONCLUSIONS, CONTINUED

Methodology:

C) IA reviewed final payout calculations for 410 employees paid in a non-pay status, if applicable, to ensure the work calendar used in the payout calculation matched the employee's work calendar in WISE, and the final payout amount was calculated correctly and matched the employee's paycheck.

Results:

IA determined that all payout calculations reviewed matched the employee's work calendar in WISE, and the final payout amount was calculated correctly and matched the employee's paycheck.

Methodology:

D) IA reviewed the leave payout calculation for 410 employees paid in a non-pay status, if applicable, to ensure the leave payout calculations by ER matched the amount used in Payroll's final payout calculation.

Results:

IA determined all leave payout calculations by ER reviewed matched the amount used in Payroll's final payout calculation.

Methodology:

E) IA reviewed all employee bank account numbers for duplicates across all employees to determine if the use of duplicate bank account numbers is justified.

Results:

IA determined all employees who share bank account numbers are justified due to various reasons (employees are married, living in the same household).

Conclusion:

Names on the VBCPS payroll to whom paychecks are issued are actual employees who perform work.

AUDITING STANDARDS

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.

The results of the audit were discussed with management. We thank management and staff of the Office of Business Services, the Department of Human Resources, and others that were contacted for their cooperation throughout the audit.

cc: Mr. Daniel G. Hopkins, Director, Office of Business Services
Ms. Crystal M. Pate, Chief Financial Officer

Dr. Darnita L. Trotman, Director, Office of Employment Services
Ms. Cheryl R. Woodhouse, Chief Human Resources Officer

AUDIT RESULTS AND MANAGEMENT'S RESPONSES

Finding No. 1: Process Documentation – Payroll

Payroll has no written policies and procedures for processing an employee's final payout calculation after separation from service, including overpayment collection and receipting procedures. It is best practice for offices and departments to document their policies and procedures. Documented policies and procedures provide employees with guidance to complete their daily tasks.

Recommendations:

IA recommends that Payroll develop written policies and procedures for processing the final payout calculation for an employee's separation from service.

Management's Response:

Chief Financial Officer (CFO) concurs. Payroll will develop written policies and procedures for how their office handles final payout calculations after separation from service by April 30, 2024.

- *IA noted as a result of this audit that Payroll has a draft of these procedures written.*

Finding No. 2: Incorrect Information in WISE

IA noted multiple payments made to two employees who appeared to be separated from service at the time of payment. When employees separate from service, HR updates the employee's record in WISE to indicate they should no longer be paid. HR updated two employees' statuses in error when entering the effective date of their separation from service. The payments made to the employees were accurate, but their status in WISE was not. Incorrect information entered in WISE will lead to inaccurate reporting and can make it appear that VBCPS is paying employees who are not real and/or no longer work for VBCPS.

Recommendations:

IA recommends that HR develop a process to review and monitor employee status changes made in WISE.

Management's Response:

Chief Human Resources Officer concurs. A process to review and monitor employee status changes made in WISE will be developed and implemented by July 1, 2024.

Finding No. 3: Monitoring of Overpayments to Employees

Employees separated from service who receive a payroll overpayment are notified of the amount that was paid in error, with instructions to repay the amount. IA noted overpayments totaling \$10,693.64 in its review of checks paid to employees in a non-pay status, with \$7,969.05 being repaid to VBCPS. The amount of outstanding unpaid payroll overpayments is unknown because the unpaid balances are not being monitored, and there is no follow-up with employees after the initial notification. Since there is no process in place to monitor the amount being repaid, it is difficult for management to determine the materiality.

AUDIT RESULTS AND MANAGEMENT'S RESPONSES, CONTINUED

Recommendations:

IA recommends that the CFO develop a process to track and monitor unpaid payroll overpayments so that management can determine if additional action can be taken to collect the balances. In addition, HR should look at adding language to the employment contract regarding repayment of overpaid wages. IA recommends the CFO, in coordination with HR, explore payroll timing to avoid overpayments during the forthcoming replacement of the HR/Payroll system.

Management's Response:

CFO concurs. A process will be developed to track and monitor unpaid payroll overpayments so that management can determine if additional action can be taken to collect the balances by April 30, 2024. HR concurs. The employment contract will be reviewed for language changes regarding the repayment of overpaid wages by July 1, 2024. CFO concurs. A coordinated effort with HR to explore payroll timing to avoid overpayment will occur before the implementation of the new HR/Payroll system is complete.

Finding No. 4: Payroll Repayments

Eight payroll repayments with checks and cash totaling \$5,416.68 were turned in to Accounts Payable between two weeks and six months after collection. In general, funds should be turned in to Accounts Payable promptly after collection. Payroll stated the funds were held because of the transition in their office. Collections will be safeguarded and recorded in the financial system if promptly deposited. In addition, Accounts Payable may have difficulty in depositing stale-dated checks or those that may become stale-dated.

Recommendations:

IA recommends that Payroll turn in all funds received to Accounts Payable daily.

Management's Response:

CFO concurs. Payroll will turn in all funds to Accounts Payable daily. Payroll implemented this change immediately.

OTHER ITEMS NOTED AND MANAGEMENT'S RESPONSES

Other Items Noted No. 1: Process Improvement – Overpayments

IA noted that Payroll informs HR of amounts that have been overpaid to employees. HR sends a memo to the employees requesting repayment that includes Payroll's contact information for repayment. HR sends a copy of the memo to Payroll for their records. It appears this process could be streamlined, which may prevent employee confusion.

Recommendations:

IA recommends that Payroll coordinate with HR to determine the best method for compiling and distributing overpayment memos to employees.

Management's Response:

CFO concurs. Payroll will coordinate with HR to determine the best method for compiling and distributing overpayment memos by June 30, 2024.

Other Items Noted No. 2: Payroll Lock-out Calendar

The Payroll Lock-out Calendar has deadlines for offices and departments to facilitate Payroll's tasks for each pay period. The calendar provides deadlines for information to be entered into WISE. Once the deadline has occurred, departments can no longer change information in WISE. IA noted there is a time constraint for departments to have all information entered in WISE to ensure that payroll is processed timely, noting that HR has the shortest number of days to enter information into WISE.

Recommendations:

IA recommends that Payroll analyze the calendar to determine if there is flexibility with dates to allow additional time for processing and to work with other departmental users, such as HR, to explore options for improvement.

Management's Response:

CFO concurs. Payroll will analyze the calendar and work with HR to see if there is flexibility with dates to allow additional time for processing by April 30, 2024.