

**Continuous Audit –
Payroll and Disbursements
for Q1 and Q2 of FY 2022-2023**

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Date: May 17, 2023

To: Board of Trustees
Stephanie S. Elizalde, Ed.D., Superintendent

From: Robert Rubel, MBA, CPA, CIA, CISA
Chief Internal Audit Officer

Subject: Continuous Audit – Payroll and Disbursements for Q1 and Q2 of FY 2022-2023

Executive Summary

The Dallas Independent School District (District) Office of Internal Audit (OIA) has completed the Continuous Audit - Payroll and Disbursements for Q1 and Q2 of FY 2022-2023.

This audit focused on the processes and controls surrounding the District's payroll and accounts payable disbursement transactions for the period of July 1, 2022, to September 30, 2022 (Q1) and October 1, 2022, to December 31, 2022 (Q2). Phase two of this audit, focusing on Q3 and Q4 transactions, will be reported on at a future date.

Opportunity for improvement was identified in the following area:

1. Mileage reimbursement should be more effectively and efficiently tracked and monitored.

Background

Accounting Services provides accurate and timely information and support to campuses and departments in a professional, positive manner so that the District's focus can remain on education of all children. The Accounts Payable Division (AP) of the Accounting Services Department is responsible for ensuring authorization, approval, and required documentation is present prior to distribution of District funds. The District's disbursement process is distributed across three departments: Central AP, Food Services AP, and Bond Services AP. As of January 18, 2023, the District's vendor master file had 6,614 active vendors. According to data obtained from Oracle, AP routinely processes a high volume of transactions for District operations (See Table 1).

Table 1 – Accounts Payable Activity Processed During Q1 and Q2 of Fiscal Year 2022-2023		
Description	Q1	Q2
Number of Purchase Orders Created	11,238	10,698
Purchase Order Amount	\$211,986,978	\$245,655,529
Number of Invoices Paid	31,837	37,438
Invoice Amount Paid	\$340,274,853	\$357,194,020
Number of Employees with Mileage Reimbursement	536	583
Mileage Reimbursement Amount	\$103,995	\$141,829
Miles Reimbursed	167,842	227,028

The Payroll Business Services Department (Payroll Services) is dedicated and committed to

providing best-in-class customer service through the delivery of accurate and timely paychecks, robust information and analyses, and support to departments to help achieve the District's strategic plan towards efficiency and excellence. As of January 30, 2023, the master employee file had 24,380 employees. According to data obtained from Oracle, Payroll Services routinely processes a high volume of transactions for District employees (See Table 2).

Table 2 – Payroll Activity Processed During Q1 and Q2 of Fiscal Year 2022-2023		
Description	Q1	Q2
Number of Employee Payroll Payments	82,965	85,446
Employee Payroll Amount	\$254,154,895	\$281,679,247
Number of Employees Paid Overtime	1,946	1,901
Number of Overtime Hours	42,995	57,937
Overtime Amount	\$1,640,015	\$2,255,554

Scope

The audit period included activity for the period of July 1, 2022, to December 31, 2022. Certain other matters, procedures, and transactions outside that period were reviewed to understand and verify information during the audit period.

Objective

The objective of the audit is to continuously audit the District's payroll and disbursement processes and transactions on a quarterly basis.

Methodology

OIA reviewed processes, controls, and supporting documentation related to data and transactions managed by the Payroll Services and AP departments. To continuously audit District payroll and disbursements transactions, auditors used TeamMate Analytics (TMA), a data analytics software, to analyze and summarize data. Auditors used TMA's library of pre-loaded analytical tests for payroll and disbursements to perform the following testing.

Payroll

1. Duplicate Employee Payments – To identify potential duplicate payments made to employees, auditors obtained an employee payroll report for each pay period within Q1 and Q2 and used the TMA "Duplicate Employee Payments" test. The test identified employees that were paid more than one time over the course of a single pay period. From the employees identified, auditors randomly selected five from each period and obtained and reviewed the correlating statement of earnings to determine if the payments disbursed were for the same hours/time frame.
No observations were noted.
2. Duplicate Employees – To identify potential duplicate or fictitious employees, auditors obtained the master employee file as of January 30, 2023, from Oracle and ran the TMA "Duplicate Employees" test to identify employees containing the same name, bank account, and address. Auditors then randomly sampled ten employees with duplicate names and ten employees with duplicate addresses and conducted further review by comparing social

security numbers, job titles, and dates of birth.
No observations were noted.

3. Excessive Overtime Hours – To identify potential overpayments of overtime hours, auditors obtained a report of employee overtime payments from July 1, 2022, through December 31, 2022. Using the detail provided on the report, auditors used the TMA “Excessive Overtime Hours” test to identify employees with greater than 20 hours of overtime hours paid per pay period, noting 1,463 instances of such payments to employees. Auditors made a random selection of 30 employees based on total and/or average overtime paid and verified supporting documentation and proper approvals were obtained and kept on file.
No observations were noted.
4. Overtime Paid to Unauthorized Employees – To identify all employees that have been paid for working overtime and determine they are eligible for overtime pay, auditors obtained a report of employee payments from July 1, 2022, through December 31, 2022. Using the report detail, auditors ran the TMA “Overtime Paid to Unauthorized Employees” test. The test was used to identify employees with overtime hours earned on a payment classified as ‘monthly’. Typically, employees distinguished as monthly in Oracle are salaried and not eligible to receive overtime pay. Five instances for three employees were identified in Q1 and three instances for one employee in Q2. For those identified, auditors reviewed the employee’s payroll profile and ensured they were paid hourly and eligible to receive overtime pay.
No observations were noted.

Disbursements

5. Duplicate Vendors – To identify potential duplicate vendors, auditors obtained the master vendor file as of January 18, 2023, from Oracle and ran the TMA “Duplicate Vendors” test to identify vendors with the same name, address, and/or registered company number (taxpayer ID). The test identified 629 instances of vendors with the same address and 44 instances of vendors with the same taxpayer id. Auditors then randomly selected ten vendor accounts with duplicate addresses and all the vendor accounts with duplicate taxpayer IDs to verify the accounts that were duplicates were properly flagged to prevent purchases or payments being made to that vendor.
No observations were noted; however, results were communicated to the Procurement Services Department for further review.
6. Duplicate Payments – To identify potential duplicate payments, auditors obtained a report of invoices paid from July 1, 2022, through December 31, 2022, from Oracle. Using the report detail, auditors ran the TMA “Duplicate Purchase Invoices/Payments” test. The test identifies separate payments made to a vendor containing the same invoice number. 330 instances were identified in Q1 and 293 instances in Q2. From the population identified, auditors randomly selected three invoices for testing from Q1 and eight invoices from Q2. Auditors obtained and reviewed the invoices along with supporting documentation and verified payments were not duplicated i.e., they were made for different POs and were for separate goods and/or services.
No observations were noted.
7. Split Purchase Orders – To identify any potential instances where multiple purchase orders were submitted in place of a single purchase order to avoid a dollar or authorization threshold, auditors obtained a report of purchase orders created from July 1, 2022, through December 31, 2022. Using the report detail, auditors ran the TMA “Split Purchase Orders” test to identify

purchase orders submitted by a single requestor to the same vendor. The test identified 3,680 instances in Q1 and 3,194 instances in Q2. Auditors sampled the top five vendors from Q1 and Q2 based on total purchase order amount from a single requestor. For the samples selected, auditors obtained all the POs and reviewed what the purchase was for, the location the purchase was made for, and any other information applicable to determine if the purchase should have been made on a single PO.

No observations were noted.

8. High Invoice Volume – To identify vendors with a high volume of invoices, auditors obtained a report of invoices paid from July 1, 2022, through December 31, 2022, from Oracle. Using the report detail, auditors ran the TMA “Vendors with Excessive Invoice Volume” test to calculate the number of invoices and credit notes issued by each supplier during the periods tested. Auditors reviewed the results and inquired about any outliers.
No observations were noted.
9. Mileage Expenses – To determine if unusually high mileage expenses were appropriate, auditors obtained a report of mileage expenses paid from July 1, 2022, through December 31, 2022, from Oracle. Using the report detail, auditors ran the TMA “Unusually High Mileage Expenses” test. The test first calculates the mean mileage and then identifies employees with expense claims containing mileage 2 standard deviations from the mean. 18 employees were identified in Q1 and 34 in Q2. Auditors selected all 18 employees identified in Q1 and the top 15 of the 34 identified in Q2 and obtained one expense report for each employee for testing. Auditors reviewed the expense reports for justifications for mileage reimbursement, possible duplicate lines of mileage reimbursed, and possible round-trip reimbursement for one-way trips.
See Recommendation 1 in this report.

Primary criteria used for this audit included:

- 1) Dallas Independent School District (ISD) Purchasing Manual, dated December 2021
- 2) Dallas ISD Payroll Manual, dated May 2019
- 3) DEE (Regulation), Compensation and Benefits, Expense Reimbursement, issued November 4, 2019

Audit Observations and Recommendations

Observation 1 – Mileage reimbursement should be more effectively and efficiently tracked and monitored.

Condition

OIA sampled the top recipients of mileage reimbursements submitted during Q1 and Q2 of FY 2023. For each employee, auditors obtained and reviewed reimbursement documentation for one expense report to determine if mileage reimbursement was accurate and appropriate. Of the 18 expense reimbursements tested for Q1, auditors noted three instances (17%) where mileage reimbursements were incorrectly paid for round-trip rather than one-way, resulting in an overpayment of \$150.52. No exceptions were noted for Q2.

Criteria

DEE (Regulation) – Compensation and Benefits, Expense Reimbursement, issued November 4,

2019

District and Local Mileage Reimbursement - Employees will receive actual mileage expense ("mileage in lieu of allowance"), in accordance with the following guidelines:

1. Expenses for in-District travel will be reimbursed.
2. Pre-approval is not required for an employee to perform in-District travel that is a part of the employee's duties.
3. The District will reimburse employees for official business mileage driven based on Dallas ISD City to City Mileage Guide (for District travel) or the shortest route between points determined by the District preferred electronic web mapping service (for local travel), at the current per mile rate established by the state comptroller in the mileage guide.
4. All employees must submit a request for reimbursement of in-District mileage, subject to budget-holder approval.
5. In computing District and local mileage, the following guidelines will be observed:
 - a. Home to District location = no mileage paid.
 - b. Home to non-District location within the District boundaries = no mileage paid.
 - c. District location to District location = mileage paid.
 - d. District location to non-District location within the District boundaries = mileage paid.
 - e. Non-District location to home = no mileage paid.
 - f. District location to home = no mileage paid.

Cause

It appears employees are incorrectly checking the round-trip field when submitting their expense reimbursements in iExpense. Although there are review processes in place, they are tedious and time-consuming. Employees submit mileage reimbursements on a monthly basis, and as such, expense reports often consist of several line items that Accounts Payable must manually review.

Effect

Employees were overpaid for mileage reimbursements.

Recommendation 1

To reduce the errors in mileage expense reimbursements, the following potential solutions should be considered by Accounts Payable within Accounting Services:

- Consider eliminating the ability to choose round trip within the expense reimbursement, but rather have employees put in a line for each way traveled.
- Offer further training to employees regarding mileage reimbursements.
- Implement better monitoring processes such as use of reporting tools to analyze if employee travel dates, times, and locations are overlapping. Potential to add the additional fields below to the expense reimbursement module to allow for better reporting tools for monitoring purposes:
 - Employees home location
 - Time fields for the estimated time spent at the location

Additionally, to potentially reduce labor resources used to manually audit mileage

reimbursements, a cost-benefit analysis could be conducted to determine if offering a mileage stipend in lieu of mileage reimbursement for employees with frequent travel would be financially beneficial.

Risk Level for Observation 1: Low¹

Conclusion

Overall, the Payroll Services and Accounts Payable departments have implemented processes and procedures for the payroll and disbursement processes. Implementation of the recommendations in this report could assist in improving operations.

We would like to thank Payroll Business Services and Accounting Services for their cooperation and assistance during this audit.

The audit was conducted in accordance with the Institute of Internal Auditors' *International Standards for the Professional Practice of Internal Auditing*. Those standards require OIA to plan and perform the audit to obtain sufficient and appropriate evidence to provide a reasonable basis for our observations and conclusions based on our audit objectives. OIA believes the evidence obtained provides a reasonable basis for our observations and conclusions based on our audit objectives.

Respectfully submitted,

Robert Rubel

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Chief Internal Audit Officer

Cc: Pamela Lear, Ed.D., Deputy Superintendent, Chief of Staff and Racial Equity
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Acknowledgments:

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¹ See Attachment 1 for Definition of Risk Level.

Definition of Risk Level

Risk Level	Definition
High	High probability of occurrence that would significantly impact District operations and have a significant financial or compliance risk. These observations are defined as an issue identified by an internal audit that, if not addressed timely, could directly impact achievement of a strategic or important operational objective of the District.
Medium	Risks are considered to be substantially undesirable and pose a moderate level of risk exposure to District operations. Without appropriate controls, the risk will happen on a consistent basis.
Low	The risks are considered to be undesirable and could moderately expose the District. Without appropriate controls, the risk will occur some of the time.

Management Response

Observation 1 – Mileage reimbursement should be more effectively and efficiently tracked and monitored.

Acknowledgement of observation:

- ☒ Agree
- ☐ Disagree

Management's Response:

To prevent employees mistakenly entering mileage as round trip when it is not actually round trip, Accounts Payable will remove the round-trip option for District mileage and require employees to enter each leg of all trips.

To improve Accounts Payable's ability to detect overclaimed mileage via duplicate one-way trips, Accounts Payable management will: 1) develop an Oracle report to identify employee expense reports that have duplicate, one-way trips, 2) update departmental mileage audit procedures, and 3) provide updated training to departmental staff who audit mileage.

Estimated Implementation Date: March 31, 2024

Individuals responsible for implementation:

Cary Newsome, Assistant Director, Accounts Payable, Accounting Services, Financial Services