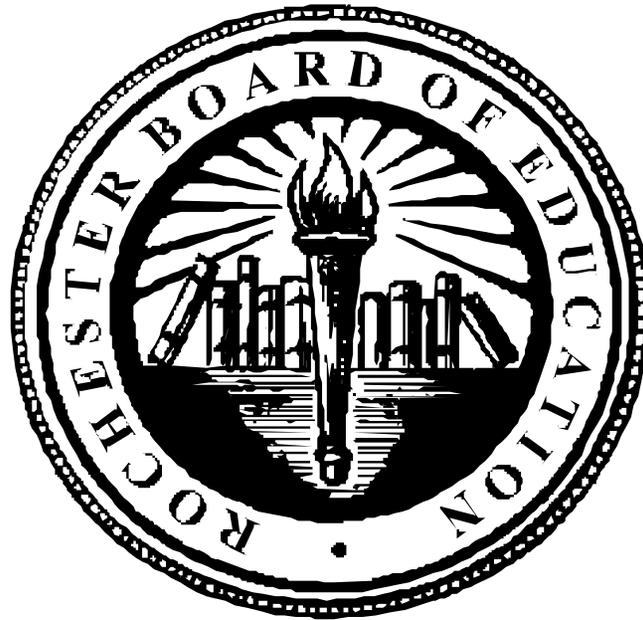


# OFFICE OF AUDITOR GENERAL



## Payroll Audit Report



## Payroll Audit Index

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## **Payroll Audit Executive Summary**

### **OBJECTIVE**

To evaluate internal control procedures for processing and monitoring payroll transactions and ensure the District is in compliance with Federal and State laws and regulations.

### **BACKGROUND**

Employee salaries and wages are the Rochester City School District's largest expense. Total payroll for all employees of the District for the fiscal year ended 2010-11 was approximately \$333M. The Payroll Department is responsible for the preparation and disbursement of District employee payroll for over 7,000 employees, while maintaining compliance with all regulatory requirements. The District has recently completed an upgrade to PeopleSoft HRM Version 9.1. This upgrade was intended to improve the functionality of payroll operations and integration with other PeopleSoft modules.

### **SCOPE**

We evaluated the effectiveness of Board Policies, Superintendent Regulations, and operating protocols and procedures impacting the Payroll function. Our audit also evaluated time reporting, earnings and deductions, payroll processing, final payments, and payroll reconciliation processes. The test period reviewed for the Payroll Audit was from July 2010 to April 2012.

### **CONCLUSION**

The Payroll Department has been working towards developing processes and protocols for the various payroll functions. Despite their efforts, improvements are still required to ensure that business practices are consistently followed. Payroll must update their documented processes and ensure they are communicated, performed and monitored. Time entry and approval must occur within established deadlines to ensure the timely processing of Payroll and to minimize manual timesheets and out of cycle checks. Formalized standards and monitoring procedures should be established for overrides, out of cycle checks, and overpayments. Standard documented criteria should be established for reviewing the File Maintenance Report which reflects payroll related changes. Defined criteria should also be established for the workbook (pay register) review which is currently performed manually. The workbook process should be automated to facilitate consistency of review.

Although several administrative departments will need to be involved, procedures must be monitored and enforced to ensure that absence time is reported in Time and Labor. Leave plan balances should also be monitored to eliminate negative leave balances and overpayments should be promptly recovered. Additional monitoring and controls should be placed on vacation cash payouts for appropriateness and frequency.



## Payroll Audit Summary of Recommendations

Rec #	Recommendations
1	<i>Update, develop and implement comprehensive written protocols and procedures for all Payroll processes. Communicate and enforce compliance with the protocols and procedures.</i>
2	<i>Develop a process to enforce timely payroll entry and supervisor approval. Include escalation procedures and trending to identify recurring issues and training opportunities.</i>
3	<i>Document, communicate and monitor the authorization requirements for manual timesheets. Include in the requirements that signature stamps will not be permitted.</i>
4	<i>Annually evaluate and analyze overtime wages to assess the cost/benefit of hiring additional staff.</i>
5	<i>Identify, correct and recover all negative leave plan balances promptly. Correct the PeopleSoft conversion from days to hours. Until the correction is completed, monitor leave plan balances for negative balances and rectify immediately.</i>
6	<i>Target negotiations with bargaining units to limit the number of vacation days an employee can cash in each year and the number of cash payment requests per employee in any given fiscal year.</i>
7	<i>Document and communicate expectations for recording and monitoring leave time. Resolve the unrecorded leave for the employee identified by Payroll. Develop and implement a monitoring and oversight process to identify employees with questionable leave balances or unrecorded time and escalate until resolved.</i>
8	<i>Develop and document a process for entering additional pay in PeopleSoft. Develop and implement a review and approval process for additional pay to verify accuracy prior to payment.</i>
9	<i>Limit access to the payroll override function. Develop a review and approval process for overrides prior to check payment. Include reporting on all overrides to ensure validity.</i>
10	<i>Configure PeopleSoft to automate the calculation of retroactive payments.</i>
11	<i>Define formal timelines for performing actions to recover overpayments. Improve the overpayment log and include dates for the activities taken and implement reporting to monitor effectiveness.</i>



## Payroll Audit Summary of Recommendations

Rec #	Recommendations
12	<i>Establish specific criteria for when an out of cycle check will be issued. Reduce the number of out of cycle checks by adhering to the established criteria and escalating as required.</i>
13	<i>Develop, document, communicate and implement criteria for the File Maintenance Report review. Develop and implement validation procedures for pay rate changes to ensure reasonableness.</i>
14	<i>Develop and implement a process to verify that the hours approved in the Time and Labor system agrees to the total hours loaded into the PeopleSoft payroll system.</i>
15	<i>Develop, document and implement specific review criteria for a thorough consistent workbook review.</i>
16	<i>Assess the feasibility of implementing an automated review of the payroll register. At a minimum, utilize exception reporting to identify common errors.</i>
17	<i>Work to modify the language in the RTA contract for the Absentee Reduction Plan to ensure double payment for sick days does not occur. Ensure the balance in the absence bank, at a minimum equates to the number of days received as an Absentee Reduction credit. Implement a separate earnings code for the Absentee Reduction Plan.</i>
18	<i>Develop a review and approval process for the quarterly payroll tax filings prior to submission.</i>
19	<i>Ensure required documentation is consistently maintained in all employee payroll files. Assess current employee's payroll files and obtain any missing documentation.</i>
20	<i>Secure the keys to the payroll file cabinets to ensure only authorized access to employee payroll information.</i>
21	<i>Reconcile payroll to the General Ledger to ensure appropriate amounts are reported on the general ledger.</i>



## Payroll Audit Observations, Recommendations and Action Plans

### OBSERVATION: #1

#### Protocols and Procedures

Comprehensive protocols and procedures for Payroll operations are not current and inclusive of all necessary Payroll functions. Desk procedures, which communicate how to perform daily responsibilities in compliance with protocols, do not exist for all functions within Payroll. Payroll historically prepared numerous protocol and procedure documents, but these documents have not been updated. A protocols and procedures manual, and desk procedures for Payroll processes should be detailed, comprehensive and up to date to ensure consistent application and compliance with Payroll policies. Written and communicated protocols and procedures would enhance the consistency of recorded data, consistency in the handling transactions, and aid in holding employees accountable for work performed.

### RECOMMENDATIONS and MANAGEMENT RESPONSES

*Update, develop and implement comprehensive written protocols and procedures for all Payroll processes. Communicate and enforce compliance with the protocols and procedures.*

**Management Responses:** We will continue to update, develop, implement, communicate and enforce comprehensive written protocols and procedures for all Payroll processes.

**Responsibility:** Elizabeth Cammilleri, Supervisor, Payrolls; Bill Ansbro, Chief Financial Officer; Anita Murphy, Deputy Superintendent of Administration

**Due Date:** June 30, 2013



## Payroll Audit Observations, Recommendations and Action Plans

### OBSERVATION: #2

#### Time Reporting

##### *Timely Entry and Approval*

Employee time entry and supervisor approval are not consistently occurring within established deadlines. Supervisors are also not thoroughly reviewing the time prior to approving. This practice results in errors that must be corrected during the biweekly payroll process. Payroll publishes a payroll schedule with deadlines to communicate expectations for timely entry and approval. Employees and Supervisors should adhere to the time reporting deadline. Approvers should perform a thorough review of employee time for accuracy prior to approving the time. Payroll should monitor and trend employees and approvers that do not comply with the established deadlines and escalate to their respective supervisors. Trending could also assist in identifying any training opportunities that may be needed. Late time entry and approval creates additional work and potentially can cause employees to not get paid.

### RECOMMENDATIONS and MANAGEMENT RESPONSES

*Develop a process to enforce timely payroll entry and supervisor approval. Include escalation procedures and trending to identify recurring issues and training opportunities.*

**Management Responses:** A System Generated Reminder Notice is sent several times throughout the Approval Period alerting the approvers of time requiring approval. However, the ongoing management changes and related structural roll up changes to the PeopleSoft Financials and HR Department Tree/Profile impacts the accuracy of the information each payroll period. Payroll will work with IM&T to develop an automated email notification / escalation to the next level of management following the deadline of the approval period and include a summary report to Payroll.

In addition, Payroll partnered with HCI to deliver an annual training session on Tuesday, August 21, 2012 for School Secretaries, Senior School Secretaries and Department Secretaries; the Time and Labor Approval Process will be discussed. We will establish a quarterly report to facilitate Senior Management level monitoring.

**Responsibility:** Elizabeth Cammilleri, Supervisor, Payrolls; Bill Ansbro, Chief Financial Officer; Anita Murphy, Deputy Superintendent of Administration

**Due Date:** The annual training was completed on 08/21/12. Quarterly Reporting - December 31, 2012.



## Payroll Audit Observations, Recommendations and Action Plans

### OBSERVATION: #3

#### Time Reporting

##### *Manual Timesheets*

Appropriate authorization does not consistently occur on manual timesheets. Manual timesheets are utilized when time reporting is not performed within the established deadlines or an error in time entry takes place. Appropriate signatures are not always present when utilizing manual timesheets. Employees are not consistently signing the manual timesheet. The approver may sign for both the employee and the approver and signature stamps are being utilized. When manual timesheets are required, extra time is necessary on the part of the employee, approver and Payroll staff. In addition, out of cycle checks may be required to pay hourly employees whose time was not entered for inclusion in the pay period. Improper authorization on manual timesheets can result in the unauthorized approval of time. Protocols and procedures should be followed to reduce the need for manual timesheets. If a manual timesheet is utilized, it should be appropriately signed by both the employee and the designated approver. Signature stamps should not be utilized.

### RECOMMENDATIONS and MANAGEMENT RESPONSES

*Document, communicate and monitor the authorization requirements for manual timesheets. Include in the requirements that signature stamps will not be permitted.*

**Management Responses:** We have updated the District Pay Procedure with the authorization requirements for manual timesheets. Signature stamps are not permitted. We will work with HCI to finalize and approve the procedure, so it can be communicated to all employees and monitored to ensure compliance.

**Responsibility:** Elizabeth Cammilleri, Supervisor, Payrolls; Bill Ansbro, Chief Financial Officer; Anita Murphy, Deputy Superintendent of Administration

**Due Date:** October 15, 2012



## Payroll Audit Observations, Recommendations and Action Plans

### OBSERVATION: #4

#### Time Reporting

##### *Overtime*

Overtime spending over the last 3 years was approximately \$4 million. Approximately one third of all overtime dollars originated in six departments, with a concentration from six job titles. We were unable to obtain an analysis of overtime spending from Payroll. The District should analyze overtime spending and trends and determine the cost/benefit of hiring additional FTEs in lieu of utilizing overtime wages. Overtime wages are paid at 150% of the employee's regular rate. It is possible that increased staffing could be more advantageous than paying overtime wages.

### RECOMMENDATIONS and MANAGEMENT RESPONSES

*Annually evaluate and analyze overtime wages to assess the cost/benefit of hiring additional staff.*

**Management Responses:** Management reviews staffing decisions whether to hire additional staff versus paying overtime as part of the annual budget process each year to ensure that decisions are made on a cost effective basis. We will formalize the process to analyze staffing. In general, FTE staff is hired as needed for regular ongoing work that requires staffing throughout the year; overtime is used as a supplement for as needed work that cannot be regularly predicted and scheduled on a cost effective basis with FTE staff.

**Responsibility:** Vernon Connors, Director of Budget; Bill Ansbro, Chief Financial Officer; Anita Murphy, Deputy Superintendent of Administration

**Due Date:** May 31, 2013



## Payroll Audit Observations, Recommendations and Action Plans

### OBSERVATION: #5

#### Leave Plan Balances

##### *Negative Leave Plan Balances*

The PeopleSoft system allows employees to maintain a negative leave balance. A negative balance results when an employee has taken more time off than they have earned. A negative balance can result when an employee's standard hours change within the fiscal year. All employees, except the Superintendent's Employee Group, receive their leave plan balances at the beginning of the fiscal year, prior to earning the time. If an employee's hours change, it impacts the annual leave balance which results in a difference. The PeopleSoft system maintains leave balances in days; however, the Time and Labor interface, where employees enter time is maintained in hours. This difference attributes to incorrect balances. IM&T adjusts the balances, on a case by case basis, but the conversion between hours and days in PeopleSoft has not been fixed to eliminate the issue. An overpayment has occurred once a leave balance becomes negative. All current negative leave plan balances should be identified, corrected and recovered immediately. Leave Plan balances should be monitored regularly for negative balances and remedied when identified.

### RECOMMENDATIONS and MANAGEMENT RESPONSES

***Identify, correct and recover all negative leave plan balances promptly. Correct the PeopleSoft conversion from days to hours. Until the correction is completed, monitor leave plan balances for negative balances and rectify immediately.***

**Management Responses:** Similar to Observation # 7, Finance, IM&T and HCI have been working since January 2012 to improve the current Leave Accrual Program. Negative leave plan balances from 2011-12 have been identified and we are taking steps to resolve them. For current employees, the 2012-13 leave accruals were reduced by the negative balance; balances for former employees have been treated as overpayments and are being pursued accordingly. The next programming upgrade will occur at the beginning of the next school year when benefit accruals will be loaded. At that time, we anticipate programming changes will be completed.

**Responsibility:** Elizabeth Cammilleri, Supervisor, Payrolls; Bill Ansrow, Chief Financial Officer; Annmarie Lehner, Information Technology Officer; Anita Murphy, Deputy Superintendent of Administration

**Due Date:** June 1, 2013



## Payroll Audit Observations, Recommendations and Action Plans

### **OBSERVATION: #6**

#### **Leave Plan Balances**

##### *Vacation Cash Payouts*

Vacation cash payouts are not limited for all employee unions/groups. There are no restrictions on the number of times a year an employee can request a vacation payout. In the last three fiscal years, there have been over \$7 million in vacation cash payouts averaging approximately \$2.6 million per year. Payroll processed on average 1,150 vacation payout transactions per year. The District should work with the various unions to limit the amount of vacation time that can be paid out in a fiscal year. All employees should be restricted on the number of requests in a given year. Limitations on vacation payouts would reduce the amount of vacation paid to employees and encourage employees to use their vacation time, in lieu exchanging it for cash. Increased restrictions on cash payments for vacation would decrease salary related expenditures that could be spend on student related initiatives.

### **RECOMMENDATIONS and MANAGEMENT RESPONSES**

*Target negotiations with bargaining units to limit the number of vacation days an employee can cash in each year and the number of cash payment requests per employee in any given fiscal year.*

**Management Responses:** This recommendation was implemented for the SEG/BOE staff this summer. Management supports this recommendation, but this is subject to contract negotiations with the collective bargaining units. An attempt to renegotiate the current vacation payout provision was made, but not agreed upon by ASAR. The District will continue to attempt to negotiate a more reasonable vacation benefit for ASAR members.

**Responsibility:** Bethany Centrone, Chief of Human Capital Initiatives; Elizabeth Cammilleri, Supervisor, Payrolls; Bill Ansrow, Chief Financial Officer; Anita Murphy, Deputy Superintendent of Administration

**Due Date:** Subject to negotiation with bargaining units



## Payroll Audit Observations, Recommendations and Action Plans

### OBSERVATION: #7

#### Leave Plan Balances

##### *Recording Absence Time*

Proper monitoring and oversight does not exist for the use of absence time. Procedures do not exist to ensure that absence time is consistently recorded throughout the District. In addition, there are employees that have not recorded any vacation time and request cash payments instead. We reviewed all employees with over \$20k in cash vacation payouts and noted 24 employees did not report any vacation within a two year period. Of this group, we identified nine employees that have not reported any vacation time since January 1, 2006. Monitoring and oversight surrounding the use of absence time is necessary to ensure accuracy of leave time. Payroll became aware of an employee on vacation; however leave time was not adjusted. It was brought to their Administrators attention, but has never been resolved. Employees must inform their direct supervisor of all absences. A Request for Absence form exists to facilitate the communication of leave time to supervisors. In addition, supervisors must verify that leave is entered in the payroll system each pay period. A formalized process for tracking absences at the management level should exist. A District-wide process for tracking absence time could provide managers with a tool to effectively monitor and provide oversight for employee absences. If absence time is not accurately monitored, cash payments in lieu of vacation could be paid in error.

### RECOMMENDATIONS and MANAGEMENT RESPONSES

*Document and communicate expectations for recording and monitoring leave time. Resolve the unrecorded leave for the employee identified by Payroll. Develop and implement a monitoring and oversight process to identify employees with questionable leave balances or unrecorded time and escalate until resolved.*

**Management Responses:** The Payroll Time and Labor work procedures document the expectations for recording and monitoring leave time. The unrecorded leave for the employee identified by Payroll has been resolved. A District-wide process for tracking absence time involves all functional areas of the District. Finance, IM&T and HCI have been working since January 2012 to improve the current Leave Accrual Program. We will implement quarterly management reporting to facilitate management review of leave balances.

**Responsibility:** Elizabeth Cammilleri, Supervisor, Payrolls; Vernon Connors, Director of Budget; Bill Ansbro, Chief Financial Officer; Anita Murphy, Deputy Superintendent of Administration

**Due Date:** June 1, 2013



## Payroll Audit Observations, Recommendations and Action Plans

### OBSERVATION: #8

#### Payment Calculations

##### *Pay Adjustments*

There is a lack of documented procedures for entering additional pay to employee payments. Additional pay include, but are not limited to, stipends, Board authorized hours, extra block/periods, extracurricular pay, suspension, leave of absence, and differentials. Existing Payroll Desk Procedures for adjustments do not define how to make adjustments to employee payments. In some cases, an additional pay line is created, while in other cases, the Payroll staff utilizes an additional pay function. In addition, there is no independent review and approval process in place for additional pay adjustments. Criteria should be developed to identify how to enter pay adjustments in PeopleSoft. Defined criteria for pay adjustments will aid in consistency in the adjustment process and facilitate review. Pay adjustments should be reviewed and approved to verify accuracy, which will minimize the risk of potential error. These adjustments should be monitored for reasonableness prior to the final confirmation process.

### RECOMMENDATIONS and MANAGEMENT RESPONSES

*Develop and document a process for entering additional pay in PeopleSoft. Develop and implement a review and approval process for additional pay to verify accuracy prior to payment.*

**Management Responses:** Payroll will document the steps for entering pay adjustments in PeopleSoft and describe the optimal use for each method i.e. adding a row on the pay line, adding a record on additional pay or both. It should be noted that there are circumstances when the method of adding additional pay is determined by the timing within the pay process.

Additional Payments are only added to employee payrolls based on the receipt of documented management approval. Payroll reviews these amounts as part of the Workbook review process each pay period.

**Responsibility:** Elizabeth Cammilleri, Supervisor, Payrolls; Bill Ansbro, Chief Financial Officer; Anita Murphy, Deputy Superintendent of Administration

**Due Date:** November 1, 2012



## Payroll Audit Observations, Recommendations and Action Plans

### OBSERVATION: #9

#### Payment Calculations

##### *Overrides*

There is an overall lack of awareness regarding the frequency and reasons for which overrides occur. All Payroll staff have access to perform overrides. There is no review or approval process for overrides in payroll. The lack of awareness surrounding the use of overrides within the Payroll function could result in the misuse of the function. Overrides by nature bypass controls automatically built in the system. An override could be used in lieu of following a proper control or hide inappropriate activities. Access to perform overrides in Payroll should be limited. Any override should be independently reviewed and approved for validity and reasonableness prior to payment processing.

### RECOMMENDATIONS and MANAGEMENT RESPONSES

***Limit access to the payroll override function. Develop a review and approval process for overrides prior to check payment. Include reporting on all overrides to ensure validity.***

**Management Responses:** One-time overrides are a necessary action under specific circumstances: refunding employees for returned 403b contributions and retirement contributions, correcting the amount of union dues to be deducted during recess periods. The HCI / Benefits Department utilize the function to adjust the amount to be taken when an employee changes their benefit election outside of the annual enrollment period. Overrides by nature do not bypass controls automatically built in the system; the date of the transaction and operator name is captured in the database audit file for management purposes.

The Override access is limited to Payroll and Benefits staff (only). The review and approval process prior to check payment will be implemented in September 2012. The process will be assessed after six months to determine whether additional process changes are necessary.

**Responsibility:** Elizabeth Cammilleri, Supervisor, Payrolls; Bill Ansbro, Chief Financial Officer; Anita Murphy, Deputy Superintendent of Administration

**Due Date:** March 1, 2013



## Payroll Audit Observations, Recommendations and Action Plans

### OBSERVATION: #10

#### Payment Calculations

##### *Retro Pay*

Individual retroactive pay transactions are calculated manually by Payroll staff. Currently, the PeopleSoft system does not automatically calculate retroactive payment amounts. On average, there are approximately 1,200 retroactive payments per year. These items are a result of timing delays in PeopleSoft entry. It should be noted, that when there is a retroactive change for a large group, such as a union change, an IM&T custom program performs the calculation.

We were unable to differentiate between retroactive payments made by IM&T and Payroll. Reporting does not exist to identify how many payments are performed manually. Manual calculation of retroactive payments leaves significant opportunity for errors. PeopleSoft should be configured to automatically calculate retroactive payments based on the effective date of the action. Automating this calculation will save a significant amount of time and reduce the risk of errors.

### RECOMMENDATIONS and MANAGEMENT RESPONSES

#### *Configure PeopleSoft to automate the calculation of retroactive payments.*

**Management Responses:** The configuration of PeopleSoft to automate the calculation of retroactive payments will require resources from IM&T. Payroll Department has communicated the need for the implementation of the PeopleSoft delivered retro pay program and is working with IM&T to implement this functionality. A partial implementation of the retro pay that relates to Contract Pay will be included in the Contract Pay Project. A feasibility study of full implementation of retro pay will be performed after Contract Pay is implemented.

**Responsibility:** Ramana, Abidhatla, Supervisor of Technology Services; Annmarie Lehner, Information Technology Officer; Elizabeth Cammilleri, Supervisor; Payrolls; Officer; Bill Ansbro, Chief Financial Officer; Anita Murphy, Deputy Superintendent of Administration

**Due Date:** June 30, 2013



## Payroll Audit Observations, Recommendations and Action Plans

### OBSERVATION: #11

#### Payment Calculations

##### *Overpayments*

Payroll lacks defined timelines for recovering overpayments from employees. Payroll sends an initial letter and a follow up letter to employees requesting repayment after an overpayment. If a current employee does not repay the amount due, the amount due is garnished from their paycheck. If the overpayment is not reimbursed by past employees, the amount will go to an outsourced firm for collection. Payroll maintains a log of the overpayments by year, but the log does not document when letters were sent, when repayment was made, or when the overpayment was sent to collections. A defined timeline should be established for recovering overpayments, including when letters were sent to the employee and when the collections firm is engaged. Timelines would facilitate timely action for overpayments. The overpayment log maintained by Payroll should include dates when actions were taken towards recovering the overpayment. A more detailed log which includes dates events occurred would aid in the collection and analysis process.

### RECOMMENDATIONS and MANAGEMENT RESPONSES

*Define formal timelines for performing actions to recover overpayments. Improve the overpayment log and include dates for the activities taken and implement reporting to monitor effectiveness.*

**Management Responses:** Salary overpayments occur when employee records are not updated in the PeopleSoft System on a timely basis. The vast majority of overpayments occur when employee leaves are recorded in the employee records subsequent to the payroll process being run. We have a general guideline for overpayments. Correspondence is sent to the employee once the overpayment has been identified; the employee is required to respond within 10 business days. Non respondents receive a 2<sup>nd</sup> letter with a request to respond within 7 business days. Sending the uncollected overpayments to collections is relatively new and would generally follow after the 2<sup>nd</sup> letter. However, it is in the District's best interest to recoup overpayments in certain circumstances versus sending it to collections i.e. the employee is on an unpaid leave of absence and is expected to return to active duty. A review process is in place to determine those that should be submitted to collections and those that we should continue to pursue internally.

The purpose of the log is to provide key information to senior management to further analyze where the process is breaking down. The processing detail is tracked separately since it is not pertinent data for the analysis. We will continue to work on improving the tracking and reporting process. Payroll will communicate overpayments to HCI to facilitate resolution.

**Responsibility:** Elizabeth Cammilleri, Supervisor, Payrolls; Bill Ansbro, Chief Financial Officer; Bethany Centrone, Chief of Human Capital Initiatives, Anita Murphy, Deputy Superintendent of Administration; Edwin Lopez-Soto, General Counsel.

**Due Date:** January 1, 2013



## Payroll Audit Observations, Recommendations and Action Plans

### OBSERVATION: #12

#### Payroll Process

##### *Out of Cycle Checks*

Specific criteria has not been formalized and approved for the circumstances in which an out of cycle check should be issued. On average, approximately 450-500 out of cycle checks are issued each year. Certain circumstances require an out of cycle check to be issued before the next scheduled pay date. The out of cycle check provision should not be used as an alternative to submitting payroll information timely. In 2012, delayed time entry and approval attributed to the issuance of 35% of the out of cycle checks. HCI actions and errors accounted for 42% of the out of cycle checks issued. The number of out of cycle payroll checks issued to employees should be reduced. Specific criteria should be established for when an out of cycle check will or will not be issued. Payroll protocols and procedures should be followed and deadlines for time entry and approval should be adhered to. Enforcement of the deadlines would reduce the need for out of cycle checks. Out of cycle checks require additional time processing and cost.

### RECOMMENDATIONS and MANAGEMENT RESPONSES

*Establish specific criteria for when an out of cycle check will be issued. Reduce the number of out of cycle checks by adhering to the established criteria and escalating as required.*

**Management Responses:** Payroll has been following an established process for approving and issuing out of cycle checks. We will document formal criteria and communicate with appropriate supervisors to reduce the number of out of cycle checks. The majority of the out of cycle checks are due to the failure of employees to enter their time in the Time & Labor on a timely basis. It is important to note that Payroll issues over 150,000 paychecks per year and will continue in its efforts to reduce out of cycle checks.

**Responsibility:** Elizabeth Cammilleri, Supervisor, Payrolls; Bill Ansbro, Chief Financial Officer; Anita Murphy, Deputy Superintendent of Administration

**Due Date:** November 2012



## Payroll Audit Observations, Recommendations and Action Plans

### OBSERVATION: #13

#### Payroll Process

##### *File Maintenance Review*

Criteria for reviewing the daily File Maintenance Report of employee data changes have not been defined. On a daily basis, HCI and the Payroll must review the File Maintenance Report which will provide all changes made in PeopleSoft by HCI the previous day. Payroll's review of this report is necessary to determine actions they need to take based on the changes made in PeopleSoft. This includes, but is not limited to, final payment, final vacation payout, retroactive payments, adjustments, one time payments, and overpayments. Pay rate changes are also included on the File Maintenance Report; however, a criterion has not been established to ensure reasonableness of the change. Defined criteria should exist for reviewing the File Maintenance Report. Pay rate changes should be validated for reasonableness. Defining specific criteria that should be reviewed on the File Maintenance Report will help to ensure a consistent and thorough review of the report and minimize the risk that changes will be missed.

### RECOMMENDATIONS and MANAGEMENT RESPONSES

*Develop, document, communicate and implement criteria for the File Maintenance Report review. Develop and implement validation procedures for pay rate changes to ensure reasonableness.*

**Management Responses:** The Payroll Department reviews the File Maintenance Report on a daily basis. The focus is to validate any transaction that will impact employee's pay. The Payroll Department utilizes an action reason chart developed by HCI to facilitate the review and validation of pay rate transactions processed. Criteria will be established, documented, communicated and implemented for the File Maintenance Report review.

Payroll will continue to work with HCI to formally document the validation procedure for pay rate changes to ensure reasonableness.

**Responsibility:** Elizabeth Cammilleri, Supervisor, Payrolls; Bill Ansbro, Chief Financial Officer; Anita Murphy, Deputy Superintendent of Administration

**Due Date:** December 1, 2012



## Payroll Audit Observations, Recommendations and Action Plans

### OBSERVATION: #14

#### Payroll Process

##### *Time and Labor Verification*

A reconciliation process does not exist to ensure the total hours entered and approved in Time and Labor, is equal to the total hours loaded into PeopleSoft. Time entry and approval occurs in the Time and Labor module of PeopleSoft. Time is entered by hours, which must be interfaced in PeopleSoft prior to payment. Currently, there is no reconciliation procedure to ensure all time is loaded into PeopleSoft for payment. A verification process should exist to ensure all hours are properly transferred in PeopleSoft. A lack of verification of hours could result in incorrect employee payments.

### RECOMMENDATIONS and MANAGEMENT RESPONSES

*Develop and implement a process to verify that the hours approved in the Time and Labor system agrees to the total hours loaded into the PeopleSoft payroll system.*

**Management Responses:** Various reports are utilized during the payroll process to verify that all time approved in the Time & Labor system agrees with the time loaded into the Payroll System. During the approval period, the payable time needs approval report is run which also triggers the System Generated Reminder Notice to managers. A payable status report is run prior to the time load and trial process to identify records that may have been rejected. The records are validated and/or resolved prior to the payroll being confirmed. A daily report is generated for Teacher absences processed through SmartFindExpress identifying records that posted or rejected so the school contact can enter the correction for the rejected records directly in time and labor. At the employee level, employees can view payable time detail which shows whether the employee's hours were successfully entered, approved and distributed.

Payroll will work with IM&T to identify and develop reporting to assist in the standardization and documentation of the process.

**Responsibility:** Elizabeth Cammilleri, Supervisor, Payrolls; Bill Ansbro, Chief Financial Officer; Annmarie Lehner, Information Technology Officer; Anita Murphy, Deputy Superintendent of Administration

**Due Date:** May 1, 2013



## Payroll Audit Observations, Recommendations and Action Plans

### OBSERVATION: #15

#### Payroll Process

##### *Workbook Review Criteria*

Formal procedures do not exist to identify what Payroll staff should review in the Payroll Register (Workbook) prior to payment. The workbook is a payroll register which is divided amongst all of the Payroll Clerks for review. There is no set criteria for this review, except for validating hours worked to the employee's standard hours, verifying overtime versus regular extra hours worked, and ensuring absences are reported in half day or full day increments. The Payroll Clerks are reviewing the workbooks for other items, for example, miscellaneous absences, night premiums, dues, deductions, holiday pay, and unpaid time off. Payroll should develop standard criteria which Payroll Clerks must review to ensure accuracy and completeness of the payroll register. Defined criteria for workbook review would aid in the consistency of the review amongst Payroll Clerks and hold employees responsible for their workbook review.

### RECOMMENDATIONS and MANAGEMENT RESPONSES

*Develop, document and implement specific review criteria for a thorough consistent workbook review.*

**Management Responses:** Documenting the current process will provide consistency and completeness in the payroll processing cycle. We will standardize the criteria in the form of a checklist to aid in the consistency of the review amongst and between Payroll Clerks.

**Responsibility:** Elizabeth Cammilleri, Supervisor, Payrolls; Bill Ansbro, Chief Financial Officer; Anita Murphy, Deputy Superintendent of Administration

**Due Date:** November 1, 2012



## Payroll Audit Observations, Recommendations and Action Plans

### OBSERVATION: #16

#### Payroll Process

##### *Manual Workbook Review*

Payroll Register (workbook) review is a manual process. The workbook includes the employee's standard hours, hours reported, earnings and deductions. The workbook is over 1,500 pages long and is divided amongst seven Payroll Clerks for review over approximately two and a half days. There is limited exception reporting utilized during this review. Automation of the workbook review should be assessed and exception reporting should be utilized to assist in the workbook review. Examples of exception reports that could expedite the workbook review could include, but is not limited to the following:

Standard hours not equal to hours reported	Miscellaneous paid leaves
Overtime reported when employee did not work 40 hours	Employees with too few or excessive hours.
Employees with night premiums	Employees with fractional leave time taken
Employees with no dues deducted (based on job code)	Per Diem Subs with greater than 10 days in a pay period

Manual review of the workbook risks items being overlooked due to volume. Automating the process and developing exception reporting could expedite the review process and allow the Payroll Clerks to perform a more in-depth review of the payroll register.

### RECOMMENDATIONS and MANAGEMENT RESPONSES

*Assess the feasibility of implementing an automated review of the payroll register. At a minimum, utilize exception reporting to identify common errors.*

**Management Responses:** Management supports this recommendation. However, implementing this recommendation would require a complete redesign of the payroll review process, as well as an intensive programming project undertaking with the assistance of the IM&T Department. We will take this under advisement however our more immediate priorities include implementation of RTA Contract Pay, RAP Annualized wages, the replacement of manual paychecks with electronic pay cards, as well as other recommendations in the payroll audit. An evaluation of the practicality of implementing automated review and exception reporting will be performed to determine both short and long term feasibility.

**Responsibility:** Elizabeth Cammilleri, Supervisor, Payrolls; Bill Ansbro, Chief Financial Officer; Annmarie Lehner, Information Technology Office; Anita Murphy, Deputy Superintendent of Administration

**Due Date:** May 31, 2013



## Payroll Audit Observations, Recommendations and Action Plans

### OBSERVATION: #17

#### Final Payout

##### *Absentee Reduction Plan*

Teachers can receive a payout for sick time through the Absentee Reduction Plan, even if the sick time is taken in subsequent years. The current provision of the Absentee Reduction Plan in the Rochester Teacher's Association's union contract allows for the incentive to be credited and banked annually. Therefore, there are no restrictions if the employee takes that sick time subsequent to the year the incentive was credited. This could allow a person to receive an incentive payment for not using sick time in the year earned, but since the time remains in the employee's sick bank, the sick time can be subsequently used, resulting in double payment. Employees should only be paid for leave time once, either through taking the absence day, or being paid through the Absentee Reduction Plan. The Absentee Reduction Plan should not allow for the credit to be banked annually. The Plan should include a provision which does not allow payment if the sick time was used in subsequent years. The balance in the absence bank should at a minimum equate to the number of days received as a payout in the Absentee Reduction Plan. Also, the earnings code utilized for the Absentee Reduction Plan payout is the severance pay (SEV) earnings code. This SEV code is utilized for other payouts, therefore making it difficult to distinguish between Absentee Reduction Plan payouts and other SEV payments. Absentee Reduction Plan should have a separate code to differentiate this payment.

### RECOMMENDATIONS and MANAGEMENT RESPONSES

*Work to modify the language in the RTA contract for the Absentee Reduction Plan to ensure double payment for sick days does not occur. Ensure the balance in the absence bank, at a minimum equates to the number of days received as an Absentee Reduction credit. Implement a separate earnings code for the Absentee Reduction Plan.*

**Management Responses:** (A) Any changes to the current provision of the Absentee Reduction Plan in the Rochester Teachers' Association union contract will require negotiation with the RTA. The Absentee Reduction Plan will be evaluated and analyzed to determine if the cost associated with paying out days under the current attendance incentive and compare it with the cost of a typical attendance incentive to determine which is beneficial for the District.

(B) Payroll has created a separate earnings code (AIP) for attendance incentive plans.

**Responsibility:** Bethany Centrone, Chief of Human Capital Initiatives; Elizabeth Cammilleri, Supervisor, Payrolls; Bill Ansbro, Chief Financial Officer; Anita Murphy, Deputy Superintendent of Administration

**Due Date:** (A) Subject to negotiation with bargaining units. (B) Complete



## Payroll Audit Observations, Recommendations and Action Plans

### OBSERVATION: #18

#### Payroll Tax Filings

There is a lack of independent review and approval process of the quarterly payroll tax returns prior to their submission. Payroll tax returns are prepared on a quarterly basis by the Supervisor, Payrolls. A thorough review of the quarterly payroll tax returns would help ensure accuracy of the amounts reported. This could reduce the risk of incorrect reporting, which would cause the District to incur interest and penalties. The quarterly payroll tax returns should be reviewed and approved prior to submission by someone other than the preparer.

### RECOMMENDATIONS and MANAGEMENT RESPONSES

*Develop a review and approval process for the quarterly payroll tax filings prior to submission.*

**Management Responses:** There is a thorough review of the quarterly payroll tax returns before they are filed. System generated reports and regular tracking of the bi-weekly tax liability in an excel spreadsheet help ensure accuracy of the amounts reported. The District reviewed the past seven years of quarterly payroll filings and did not find any late or incorrect filings that resulted in interest or penalties against the District.

A formal 2<sup>nd</sup> level review will be added to the process beginning with the next quarterly payroll tax filing.

**Responsibility:** Elizabeth Camilleri, Supervisor, Payrolls; Bill Ansbro, Chief Financial Officer

**Due Date:** October 31, 2012



## Payroll Audit Observations, Recommendations and Action Plans

### OBSERVATION: #19

#### Payroll Files

Required documentation is not consistently maintained in employee payroll files for District employees. Missing documentation included payroll forms and retirement registration. Employee payroll files should be maintained by Payroll and include all pertinent payroll-related documentation. Current files should be assessed to ensure all required documentation is present. Any missing documentation should be obtained. The lack of documentation for the payroll files could result in incorrect withholdings as well as a lack of evidence that employees were notified of their right to join the NYS retirement system.

### RECOMMENDATIONS and MANAGEMENT RESPONSES

*Ensure required documentation is consistently maintained in all employee payroll files. Assess current employee's payroll files and obtain any missing documentation.*

**Management Responses:** Employee payroll files are maintained by Payroll and include all pertinent payroll-related documentation submitted by the employee. A general file is maintained for substitute employees. Employees who do not submit a Form W-4 or IT-2104 are defaulted to a marital status of single and withholding allowances of zero in accordance with IRS guidelines.

Past practice of filing form W-4 and IT-2104 separate from the employee's payroll file has made retrieval difficult at times. We will be launching a campaign to ask all employees to acknowledge their form W-4 information online via Self Service in PeopleSoft and submit form IT-2104 to the Payroll Office for processing since online access is not available.

The evidence that employees were notified of their right to join the NYS retirement system is a personnel document and is filed in the personnel folders maintained by the Human Capital Initiatives Department.

**Responsibility:** Elizabeth Cammilleri, Supervisor, Payrolls; Bill Ansbro, Chief Financial Officer; Bethany Centrone, Chief of Human Capital Initiatives; Anita Murphy, Deputy Superintendent of Administration

**Due Date:** December 31, 2012



## Payroll Audit Observations, Recommendations and Action Plans

### OBSERVATION: #20

#### Payroll Files

##### *Access*

Employee Payroll files are locked and the file keys are maintained in a locked key box; however the key to the box is located behind the key box. Payroll files including employee personal information are kept in locked cabinets within the Payroll Department. The cabinets are locked throughout the day. Only Payroll employees have authorized access to these files. The key to the key box should not be located behind the key box. It should be kept in a secure place with limited access. The risk of unauthorized access to payroll files exists if the keys to the file cabinets are not secure.

### RECOMMENDATIONS and MANAGEMENT RESPONSES

*Secure the keys to the payroll file cabinets to ensure only authorized access to employee payroll information.*

**Management Responses:** The key to the key box is only available during the day for Payroll staff to access. The key is secured every evening so unauthorized staff walking into the Payroll area after hours cannot access employee payroll files.

**Responsibility:** Elizabeth Cammilleri, Supervisor, Payrolls; Bill Ansbro, Chief Financial Officer; Anita Murphy, Deputy Superintendent of Administration

**Due Date:** Completed



## Payroll Audit Observations, Recommendations and Action Plans

### OBSERVATION: #21

#### Reconciliation

A formal reconciliation of the PeopleSoft payroll system to the general ledger system is not performed. Payroll is not reconciled to the general ledger throughout the year. The biweekly general ledger interface and payroll posting process does verify that the payroll amount posted is accurate, but this is not a complete reconciliation. Payroll should be reconciled to the general ledger on a regular basis to ensure accuracy. Reconciliation could identify outstanding items that need to be adjusted by Accounting or Payroll.

### RECOMMENDATIONS and MANAGEMENT RESPONSES

*Reconcile payroll to the General Ledger to ensure appropriate amounts are reported on the general ledger.*

**Management Responses:** The cash and Payroll Suspense accounts are reconciled on a monthly basis. Payroll related items that need to be adjusted are identified monthly by Accounting and appropriate action is taken, as needed. A reconciliation of the Payroll account to the general ledger is not practical due to the number of transactions and the time that would be required to complete the task. We believe all significant items will be identified in the cash and suspense reconciliations.

**Responsibility:** Cerri Cupples, Director of Accounting; Bill Ansbro, Chief Financial Officer; Anita Murphy, Deputy Superintendent of Administration

**Due Date:** Closed. Mitigating controls accepted.