

Payroll Audit

Audit Plan Code: 23.05.A



Assurance | Insight | Objectivity

Final Report
August 8, 2023

We found no inappropriate compensation to fictitious and/or inactive employees. However, we found two (2) employees had improper access to the Frontline Payroll Module, and instances where manual time clock entries did not have or had incomplete supporting documentation. Additionally, 25% (nine) of the direct deposit authorizations forms tested were not found.



Contents

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Executive Summary

What We Found	1
What We Recommend	1
Management's Response	2

Internal Audit Report

Objective and Scope	3
Results, Recommendations, and Management's Response	3

Appendix A

Background	8
Methodology	8

Abbreviations

CAP	Corrective Action Plan
EPISD	El Paso Independent School District
IT	Information Technology



Executive Summary

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We have completed the Payroll Audit. The objectives of the audit were to ensure:

- Employees do not have unauthorized or improper access to add or inactivate employees in Frontline.
- Fictitious and/or inactive employees have not been inappropriately compensated.
- Manual time clock punch entries have supporting documentation to ensure the correct time worked was compensated.

The scope of the audit was from July 1, 2022, through January 31, 2023.

The Audit Report section that follows includes detailed findings, recommendations, methodology, and background.

We would like to acknowledge and thank the Payroll Manager and her staff who participated in this audit for their time.

What We Found

- We found there were no employees that had inappropriate access to add or delete employees in Frontline. However, there were two (2) employees that had improper access to the Frontline Payroll Module.
- Through various testing methods for inappropriate compensation of fictitious and/or inactive employees, we found no discrepancies. However, 25% of direct deposit authorization forms tested were not found by the Payroll Department because they no longer had them. Schedule GR was not adhered to when disposing of the direct deposit authorization forms.
- Fifteen percent (15%) of manual time clock entries tested had incomplete or missing supporting documentation.

What We Recommend

Internal Audit made seven (7) recommendations to address the findings. Recommendations include:

We recommend the Payroll Department:

- Work with IT to modify access for the two employees that do not work in the Payroll Department to the appropriate level. Through the course of this audit, the Payroll Department submitted a ticket to IT to have access modified for these individuals. As of May 21, 2023, access was modified to view only.
- Implement procedures to review users' access rights to the payroll module at regular intervals as well as for new and departing staff to verify that their access rights are updated and correct.

- The Financial Services department should consider the segregation of duties risks in allowing an employee to continue to have access to the payroll module after they leave the department. Acceptance of risks should be documented.
- Request direct deposit authorizations to be completed from the nine (9) employees and upload them to the payroll module.
- Develop procedures that ensure staff reference Local Schedule GR before any payroll records are destroyed.
- Verify that all active employees have a direct deposit authorization form uploaded to their payroll file.
- The Payroll Department should address the Change form in the Finance Academy Training to state the importance of the completion of the Change form to include required signatures. This will reinforce keeping in compliance with CFE(Regulation) related to the certification of work performed.

Management's Response

Management and leadership agreed with the audit findings. District management and leadership submitted a Corrective Action Plan (CAP) outlining (6) activities to be implemented. Six (6) of the seven (7) recommendations made by Internal Audit were incorporated into the CAP. For the remaining recommendation, Management submitted a Risk Acceptance form in lieu of implementing the recommendation (refer to recommendation 2.3 in the Audit Report section for additional information). The CAP appears to be sufficient to address the findings outlined in this report. Internal Audit will conduct follow-up reviews to validate CAP activities have been implemented.



Audit Report

ASSURANCE • INSIGHT • OBJECTIVITY

Objective and Scope

The objectives of the audit were to ensure:

- Employees do not have unauthorized or improper access to add or inactivate employees in Frontline.
- Fictitious and/or inactive employees have not been inappropriately compensated.
- Manual time clock punch entries have supporting documentation to ensure the correct time worked was compensated.

The scope of the audit was from July 1, 2022, through January 31, 2023.

Results, Recommendations, and Management's Response

In summary:

- We found there were no employees that had inappropriate access to add or delete employees in Frontline. However, two (2) employees had improper access to the Frontline Payroll Module (See Finding 1 for details).
- Through various testing methods for inappropriate compensation of fictitious and/or inactive employees, we found no discrepancies. However, 25% of direct deposit authorization forms tested were not found (See Finding 2 for details).
- Fifteen percent (15%) of manual time clock entries tested had incomplete or missing supporting documentation (See Finding 3 for details).

We would like to acknowledge and thank the Payroll Manager and her staff who participated in this audit for their time.

Finding 1

Two (2) employees had improper access to the Frontline Payroll Module.

Two employees that do not work in the Payroll Department, a Compensation Analyst and Human Resources Specialist, had full access to the payroll module. Based on their current position, they should not have had access to the payroll module.

The Compensation Analyst previously worked as the Payroll Assistant Manager and would have needed access to the payroll module for that position. She began her new role as Compensation Analyst in July 2020. She worked in both positions until the Payroll Assistant Manager position was filled in January 2021. Payroll Management states that employees may continue working in two positions until the vacant position is filled. Access is based on security roles by position and not by the person; however, in this instance, the access was modified to accommodate the employee performing the dual roles.

The Human Resources Specialist has never worked in the Payroll Department. However, her access was changed to match the two other compensation analysts

in May 2022. As one of the Compensation Analysts (who previously worked in payroll) had not had her access to the payroll module removed, that access was erroneously granted to the Human Resources Specialist.

Although a ticket can be submitted to Information Technology (IT), there is no formal user registration or deregistration procedure in place for granting or revoking access to the payroll module. The Payroll Department does not maintain a record of who should and who has been granted security roles/access to the payroll module. Additionally, there is no procedure in place to review user access rights by management at regular intervals.

Per CQ(Regulation): "User Access Management: To ensure authorized user access and to prevent unauthorized access to information systems: 1. There will be a formal user registration and deregistration procedure in place for granting and revoking access to all information systems and services; 2. The allocation and use of privileges will be restricted and controlled; 3) The allocation of passwords will be controlled through a formal management process, and; 4) Management will review users' access rights at regular intervals using a formal process."

By not having segregation of duties and a scheduled review of users' access rights, there is a risk that errors can occur more easily and go unnoticed and that employees may mistakenly or deliberately perform inappropriate actions.

Recommendations and Management's Response

The Payroll Department should:

- 1.1 Work with IT to modify access for the two employees that do not work in the Payroll Department to the appropriate level. Through the course of this audit, the Payroll Department submitted a ticket to IT to have access modified for these individuals. As of May 21, 2023, their access was modified to view only.

Management and Leadership Response: Concurred with recommendation and incorporated into the CAP as activity number 01.

Person(s) Responsible: Payroll Manager and Executive Director Financial Services

Implementation Date: 02/28/2024

- 1.2 Implement procedures to review users' access rights to the payroll module at regular intervals as well as for new and departing staff to verify that their access rights are updated and correct.

Management and Leadership Response: Concurred with recommendation and incorporated into the CAP as activity number 02.

Person(s) Responsible: Payroll Manager and Executive Director Financial Services

Implementation Date: 02/28/2024

The Financial Services Department should:

- 1.3 Consider the segregation of duties risks in allowing an employee to continue to have access to the payroll module after they leave the department. Acceptance of risks should be documented.

Management and Leadership Response: Concurred with recommendation and incorporated into the CAP as activity number 03.

Person(s) Responsible: Payroll Manager and Executive Director Financial Services

Implementation Date: 02/28/2024

Finding 2

Twenty-five percent (25%) of direct deposit authorization forms tested were not found.

When testing was performed on employees that shared the same bank account, we requested 36 direct deposit authorization forms for additional verification for employees whose addresses and contact information differed. Of the 36 direct deposit authorization forms tested, the following was noted:

- Nine (9) forms for active employees could not be provided as the Payroll Department no longer had them on hand. See explanation under "a."
- Nineteen (19) forms could not be provided due to employees being inactive even though their direct deposit was reflected as active. No inappropriate payments were made to these employees. See explanation under "b."
- Eight (8) forms were provided for active employees.

Without a signed direct deposit authorization form for each employee, there is insufficient evidence to prove that an employee agreed to have their payroll monies deposited into a specific bank account. In addition, per Local Schedule GR, Retention Schedule For Records Common To All Local Governments, direct deposit authorization forms should be retained until changed or until an employee separates (Section 3-2: Payroll Records - Direct Deposit Authorization retention period is "Until Superseded or date of separation, as applicable.").

- a. The Payroll Manager explained that during the move to EPISD's new central office location, the Payroll Department, in a joint effort with the Executive Director of Financial Services, agreed to get rid of excess documents due to lack of storage space. The Payroll Department did not reference Local Schedule GR Retention Schedule for direct deposit authorization forms before their destruction. In 2021, the Payroll Department implemented a procedure to upload direct deposit authorization forms to employees' files in the payroll module.
- b. The Payroll Manager explained that when employees became inactive, the practice was to close their direct deposit account, which would then activate a paper check for leave payoffs. During the 2020 COVID-19 pandemic, it was not feasible to issue paper checks; therefore, an end date was no longer entered to deactivate direct deposit accounts. The Payroll Manager states there have been no issues by not entering direct deposit end dates, and rehired employees are instructed to fill out a new direct deposit authorization form and check the Employee Service Center for their direct deposit information.

Recommendations and Management's Response

- 2.1 The Payroll Department should request direct deposit authorizations to be completed from the nine (9) employees and upload them to the payroll module.

Management and Leadership Response: Concurred with the recommendation to request direct deposit authorizations from the nine employees and incorporated into the CAP as activity number 04.

- 2.2 The Payroll Department should develop procedures that ensure staff reference Local Schedule GR before any payroll records are destroyed.

Management and Leadership Response: Concurred with recommendation and incorporated into the CAP as activity number 05.

Person(s) Responsible: Payroll Manager and Executive Director Financial Services

Implementation Date: 02/28/2024

- 2.3 The Payroll Department should verify that all active employees have a direct deposit authorization form uploaded to their payroll file.

Management and Leadership Response: Management and Leadership have accepted the risk of not implementing this recommendation (a Risk Acceptance form was signed/approved for this recommendation). According to the justification for risk acceptance from the Executive Director of Financial Services and Payroll Manager, "The cost/benefit constraints of conducting an inventory of signed direct deposit authorization forms for a District of over 8,000 employees is a challenge with existing resources. Management's assessment of the findings have concluded that any deviations/discrepancies from the employee's authorization of direct deposit would have resulted in immediate communications. As we move forward with the noted paperless process, all direct deposit forms will be maintained pursuant to the records retention guidelines in Local Schedule GR."

Person(s) Responsible for Decision: Payroll Manager, Executive Director Financial Services, and Chief Financial Officer

Finding 3

Fifteen percent (15%) of manual time clock entries tested had incomplete or missing supporting documentation.

A sample of 60 manual time clock entries from 28 departments/campuses were selected to verify supporting documentation and appropriate approval. Time Worked/Time Missed/After the Fact Absence Request or Change forms, (hereinafter called Change form) were missing or incomplete for nine (9) manual entries.

The following was noted:

- Two (2) manual entries had no supporting documentation
- Five (5) manual entries had a Change form with missing employee and/or supervisor signatures
- Two (2) manual entries had documentation provided other than a Change form and were missing employee and/or supervisor signature

When a manual time clock adjustment is made, and a Change form is not completed and signed by the employee, there is no evidence that the employee authorized the adjustment. Although the supervisor approves absences in the system, if they don't sign the Change form they may not know whether the employee authorized the time clock adjustment. Therefore, the supervisor may not be certifying the correct time worked by the employee. This could result in incorrect hours being compensated.

According to some of the campus/department timekeepers, due to several time clock malfunctions, which led to an abundance of manual time clock adjustments, forms were not completed in their entirety. In some cases, time clocks were not working for several months.

Frontline Clock Punch Verification (Online Course) training is provided to timekeepers where the use of the Change form is explained. According to the training, "Anytime an employee's time record is modified in any way, that employee must fill out a Change form. The purpose of this form is to notify the employee of the changes taking place, get the employee's authorization to make the changes, and provide detailed documentation of the changes that took place." However, there is no mention of the supervisor's signature being required.

Per Board Policy CFE (Regulation) Accounting: Payroll Procedures, "All checks issued to any District employee, whether for regular salary, overtime, or special work under special funding, must be issued based upon certification from the department head in which the work was performed, and the certification must include the dates upon which the work was performed."

Per Financial Services ARG7.9 Approval Deadlines, "District hourly (non-exempt) employees to include substitutes are required to record time by utilizing time clocks or other available timekeeping system to record time worked..."

Recommendation and Management's Response

3.1 The Payroll Department should address the Change form in the Finance Academy Training to state the importance of completing the Change form to include required signatures. This will reinforce keeping in compliance with Board Policy CFE (Regulation) related to the certification of work performed.

Management and Leadership Response: Concurred with recommendation and incorporated into the CAP as activity number 06.

Person(s) Responsible: Payroll Manager and Executive Director Financial Services

Implementation Date: 02/28/2024



Appendix A: Background and Methodology

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Background

The Payroll Department processes millions of dollars on a semi-monthly basis in payroll costs for approximately 8,700 employees. For FY23, the District budgeted \$454,157,534 in payroll cost expenses (2022-2023 Annual Official Budget). In addition, the department is responsible for maintaining employee payroll records, direct deposit authorization forms, payroll tax forms, and processing benefit deduction payments. The Payroll Department relies on campuses and departments to verify and timely submit time and attendance data. The Payroll Department currently has a staff of eight (8) and one (1) vacant position.

The Payroll Audit was approved by the Board of Trustees as part of the 2022-2023 Internal Audit Plan.

Methodology

To achieve our audit objective(s) we:

1. Researched relevant federal/state laws and regulations, Board policies and the Payroll Department's manual/guidelines.
2. Used pre-audit self-assessment, internal control questionnaires and performed walkthroughs to obtain an understanding of the payroll process, operations, and controls in place.
3. Performed a risk assessment based on our understanding of the payroll process and controls in place.
4. Obtained and analyzed payroll records to include: payroll reports, time clock swipe reports, direct deposit authorization forms, and Time Worked/Time Missed/After the Fact forms for the scope period.
5. Selected a representative sample based on our sampling procedures for each of the tests performed.

Because of the inherent limitations in a system of internal controls, there is a risk that errors or irregularities occurred and were not detected. Due professional care requires the internal auditor to conduct examinations and verifications to a reasonable extent. Accordingly, an auditor is able to obtain reasonable, but not absolute, assurance that procedures and internal controls are followed and adhered to in accordance with federal, state, and local policies and guidelines.



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Internal Audit

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