

Internal  
Audit  
Report

Division of Fiscal Services – Office of Payroll

**FY22 Manual Payroll Audit**

November 2022



Baltimore County Public Schools  
Office of Internal Audit

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# Report Highlights

## FY22 Manual Payroll

November 2022

### Objective

To determine the controls over and the accuracy of manually processed payrolls.

### Background

On November 24, 2020, BCPS was the victim of a cyber-attack. As a result, BCPS lost all access to the payroll software applications. Manual processes were implemented to identify, calculate, and approve pay for all employees. Although the manual process is sufficient to continue payroll operations, this presents an increased risk to BCPS for errors and fraud.

It was determined that certain manual payrolls, primarily processed in the summer, will continue to be processed manually post-conversion.

### Audit Period

July 2021 – September 2021

### Summary of Results

#### **Manually processed payroll payments were not accurate.**

- Three employee payments were inaccurate that resulted in total overpayments of \$2,257.18 and an underpayment of \$47.97.

#### **Manually processed payroll payments were not supported by an approved time record.**

- Five employee payments that totaled \$16,739.74 were not supported by an approved time record.

#### **Internal controls were not in place to adequately address key risks.**

- There are no documented standard operating procedures for processing manual payroll payments.
- There is no formal list of payroll approvers.
- There is currently no process to identify payments to duplicate direct deposit accounts.

### Audit Rating

**Needs Improvement**

The Office of Payroll received a needs improvement audit rating for the FY22 manual payroll process:

- controls only partially address key risks,
- risks were not effectively managed which could result in failure to ensure objectives are met, and
- high-rated and/or medium-rated issues were identified.

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## BACKGROUND

### Organizational Status & Information

The Office of Payroll is a part of the Division of Fiscal Services. Based on conversations with the BCPS Chief Financial Officer and Payroll Manager, it was determined that the cyberattack in November 2020 presented significant challenges to the Office of Payroll. BCPS lost all access to the payroll software applications. Manual processes were implemented to identify, calculate, and approve pay for all employees. Although the manual process is sufficient to continue payroll operations, this presents an increased risk to BCPS for errors and fraud.

It was determined that certain manual payrolls, primarily processed in the summer, will continue to be processed manually post-conversion.

### Regulations

The Office of Payroll processes manual payrolls based on BCPS Master Agreements and Memorandums of Understanding (MOU) for TABCO, ESPBC, AFSCME and CASE.

## COMMENDATIONS

### Cancelled Checks

Sampled cancelled checks were supported by appropriate documentation such as emails, cancelled check reporting from the bank and, where applicable, the physical defaced cancelled check.

### Exception Reporting

Payroll Managers review exception reports that are generated on a bi-weekly basis for propriety. These reports identify potential issues such as employees with mismatched union dues, employees with high gross pay, employees paid under interim “I” status, and gross or net pay under \$15.

## RESULTS

### Issue 1: Manual payroll payments were not accurate.

Issue Rating	High
Criteria	Manual payroll payments should be accurately processed and adequately monitored.
Issue	<p>Three of the 61 manually processed payroll payments reviewed were not accurate:</p> <ol style="list-style-type: none"><li>An employee received an overpayment for the pay period ended July 30, 2021 for 40 regular hours that totaled \$1,288.40.</li><li>An employee received an overpayment for the pay period ended September 10, 2021 for 74.25 regular hours that totaled \$986.78.</li><li>An employee was underpaid for the pay periods ended March 26, 2021 and April 16, 2021 (processed late during the pay period August 6, 2021) for 1 regular hour that totaled \$47.97.</li></ol>
Cause	The manual processing of timesheets increases the risk of input errors resulting in potential overpayment or underpayment to employees.
Effect	Without a periodic review of manual payroll transactions, there is an increased risk of errors and payroll clerk performance cannot be adequately monitored and evaluated. Additionally, because employees rely on their paychecks, errors or untimely payment can create a lack of trust, thereby impacting employee morale, BCPS financial stability, and reputation.
Recommendation	The Office of Payroll should take steps to ensure that time records are processed accurately. This should include the implementation of a process to compare, at least on a sample basis, the input of time records processed to an edit report. The Office of Payroll should also consider the conversion of manual payrolls to automated processes.
Management's Corrective Action	<p><i>Overpayment letters were sent to the employees. The employees have already paid back the overpayments and the underpayment was also processed.</i></p> <p><i>We will request a report be written that lists all transactions, and on a sample basis, compare the time sheets to the report. We have submitted the request through Department of Information Technology (DoIT) for the report to be created. We are targeting January 2023, but are relying on DoIT to complete the report.</i></p> <p><i>In addition, Payroll is implementing a new time &amp; attendance system, Kronos, that will automate many of the manual processes that occur in</i></p>

*payroll. Our plan is that all employees will be on Kronos, and we will automate as many processes as we can.*

Responsible  
Person(s)

*Director of Payroll*

Anticipated  
Completion Date

*We will implement the revised procedure as soon as we are able to have the new report developed. The new Kronos system will be implemented in phases, and it will span over into fiscal year 23/24.*

## Issue 2: Manual payroll payments were not supported by an approved time record.

Issue Rating	Medium
Criteria	Manually processed payroll payments should be supported by an approved time record.
Issue	Five of the 61 manually processed payroll payments reviewed were not supported by an approved time record; however, three of the five were supported by a time record that was not approved by supervisory personnel.
Cause	Payroll clerks failed to follow the designed control, which requires an approved time record.
Effect	When payments are processed without properly approved time records, employees could possibly be paid for unauthorized time worked and leave taken. There is also an increased risk of fraudulent activity related to compensation for time not worked.
Recommendation	The Office of Payroll should ensure that all manual payroll payments are supported by properly approved documentation.
Management's Corrective Action	<i>It has always been our procedure to have authorized approval before processing time sheets or employees' pay. All payroll reps have been reminded that we cannot process a timesheet without proper signatures or an approval email from the administrator/manager.</i>
Responsible Person(s)	<i>Payroll Reps.</i>
Anticipated Completion Date	<i>Has been completed.</i>

### Issue 3: Internal controls were not in place to adequately address key risks.

Issue Rating	High
Criteria	Internal controls should be in place to adequately address risks that would prevent the completion of a specified process or objective.
Issue	<p>The Office of Payroll lacks:</p> <ul style="list-style-type: none"><li>• documented standard operating procedures (SOPs) for processing manual payrolls,</li><li>• a formal list of payroll approvers, and</li><li>• a report to identify payments to duplicate direct deposit accounts.</li></ul>
Cause	There are no SOP's to document the manual payroll process.
Effect	<p>Without SOPs:</p> <ul style="list-style-type: none"><li>• procedural gaps and opportunities are not identified,</li><li>• there is a potential for knowledge gaps to occur when key employees leave the system, and</li><li>• there is an increased risk of fraudulent activity related to compensation for time not worked.</li></ul>
Recommendation	<p>The Office of Payroll should:</p> <ul style="list-style-type: none"><li>• should develop and implement standard operating procedures for processing manual payrolls,</li><li>• implement and maintain a listing of payroll approvers, and</li><li>• work with the Department of Information Technology to recreate the report that identified payments to duplicate direct deposit accounts.</li></ul>
Management's Corrective Action	<p><i>A new time &amp; attendance system is being implemented that will automate most of the manual processes that are currently being performed in payroll. We will develop standard operating procedures for manual processes that are not eliminated by the implementation of Kronos. However, we believe many of the current manual processes will be replaced through the implementation of Kronos.</i></p> <p><i>Also, payroll approvers will be maintained in the new system, so only authorized managers/supervisors can approve timesheets. It is our current practice to check for signatures. Most of the approvals come through e-mail which is easy to verify. Our payroll reps are very familiar with the approved payroll signers in their areas, so we feel the risk is minimal that unauthorized transaction get through.</i></p> <p><i>A request was submitted through DoIT for the report previously used to identify duplicate direct deposit accounts.</i></p>

Responsible  
Person(s)

*Director of Payroll*

Anticipated  
Completion Date

*The Kronos system will be implemented in phases, and it will span over into fiscal year 23/24. We are targeting January 2023 for the duplicate direct deposit report, but are relying on DoIT to complete the report.*

## AUDIT RATING

Needs Improvement	<p>The Office of Payroll received a needs improvement audit rating for the manual payroll payments process:</p> <ul style="list-style-type: none"><li>• controls only partially address key risks,</li><li>• risks were not effectively managed which could result in failure to ensure objectives are met, and</li><li>• high-rated and/or medium-rated issues were identified.</li></ul>
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See **APPENDIX B** for the audit rating definitions.

## OBJECTIVE, SCOPE & METHODOLOGY

Objective	To determine the controls over and the accuracy of manually processed payrolls.
Scope	The audit period is July 16, 2021 through September 10, 2021.
Methodology	<p>To achieve the audit objectives, we performed the following:</p> <ul style="list-style-type: none"><li>• Planned the audit in cooperation with the Office of Payroll staff to ensure an understanding of the manual payroll process.</li><li>• Interviewed key personnel knowledgeable of the manual payroll process.</li><li>• Reviewed BCPS Master Agreements and Memorandums of Understanding (MOU) for TABCO, ESPBC, AFSCME and CASE.</li><li>• Evaluated risks and controls over the manual payroll process.</li><li>• Performed detailed tests to support our conclusions.<ul style="list-style-type: none"><li>○ We selected a sample of manual payroll payments to ensure that they were properly approved and processed.</li><li>○ We selected a sample of cancelled checks to ensure they were processed properly.</li></ul></li></ul>

## APPENDIX A – Issue Rating Definitions

Issues will be rated high, medium, or low based on these factors:

1. Level of financial impact.
2. Extent of violation of external laws, regulations, and restrictions.
3. Lack of documented policy, procedure, or noncompliance with a policy in an important matter.
4. Lack of internal controls or ineffective controls and procedures.
5. Fraud, theft, inappropriate conflicts of interest or serious waste of school system resources.
6. Significant opportunity exists for real gains in processing efficiency.
7. Poor cost controls or potential for significant savings and/or revenue generation.
8. Condition places the school systems reputation at risk.
9. Ineffective reporting and/or communication structure results in financial risks and/or inefficient operations.
10. Post audit implementation review reveals little or no effort to implement an action plan in response to a previous audit finding.

## APPENDIX B – Audit Rating Definitions

Audit Rating	Definition
<b>Unsatisfactory</b>	<p><b>Design</b> - Design of controls is ineffective in addressing key risks</p> <p><b>Documentation and communication</b> - Non-existent documentation and/or communication of controls/policies/procedures</p> <p><b>Operation/implementation</b> - Controls are not in operation or have not yet been implemented</p> <p><b>Compliance</b> - Significant breaches of legislative requirements and/or departmental policies and guidelines</p> <p><b>Risk management</b> - Risks are not being managed</p> <p><b>Issues/deficiencies</b> - Most issues were rated as high and urgent corrective actions are necessary</p>
<b>Needs Improvement</b>	<p><b>Design</b> - Design of controls only partially addresses key risks</p> <p><b>Documentation and communication</b> - Documentation and/or communication of controls/policies/procedures is incomplete, unclear, inconsistent, or outdated</p> <p><b>Operation/implementation</b> - Controls are not operating consistently and/or effectively or have not been implemented in full</p> <p><b>Compliance</b> - Breaches of legislative requirements and/or departmental policies and guidelines have occurred</p> <p><b>Risk management</b> - Risks are not effectively managed which could result in failure to ensure school objectives are met</p> <p><b>Issues/deficiencies</b> - Some high-rated and/or medium-rated issues were identified</p>
<b>Satisfactory</b>	<p><b>Design</b> - Design of controls is largely adequate and effective in addressing key risks</p> <p><b>Documentation and communication</b> - Controls/policies/procedures have been formally documented and are up to date but are not proactively communicated to relevant stakeholders</p> <p><b>Operation/implementation</b> - Controls are largely operating in a satisfactory manner and are providing some level of assurance</p> <p><b>Compliance</b> - No known breaches of legislative requirements and/or departmental policies and guidelines have occurred</p> <p><b>Risk management</b> - Risks are largely effectively managed</p> <p><b>Issues/deficiencies</b> - No high-rated or medium-rated issues identified</p>