

**Internal
Audit
Report**

Division of Human Resources

Overpayment of Separated Employees

September 2023



Baltimore County Public Schools
Office of Internal Audit

Andrea M. Barr, CGAP, CBM
Chief Auditor

Overpayment of Separated Employees

Background

As a result of a recent investigation, the Office of Internal Audit determined that individuals were overpaid for extended periods of time in the total gross amount of **\$87,053.84**. Due to the concerns identified in the investigation, we performed this audit to determine the extent of additional potential overpayments to separated employees.

Objective

To determine the extent, number, and overpayment amounts to separated employees, by bargaining unit, for the period January 1, 2020 through March 15, 2023.

Results In Brief

- Separated employees in each bargaining unit were overpaid. There were 174 separated employees who were overpaid a total gross amount of **\$736,568.34** for the period January 1, 2020, through March 15, 2023.
- The amount of gross overpayments identified, from both our original investigation and this audit, total **\$823,622.18**.
- BCPS received repayments from eight individuals totaling **\$51,745.91** as of the date the audit concluded.

Potential Risks

If not corrected, the potential risks to BCPS include: reputational risk, undue financial liability, continued erroneous payments, and continued opportunity for fraudulent activity.

Recommendations

The full report contains three overall recommendations for the Division of Human Resources and BCPS:

- develop and implement internal controls to prevent or reduce further erroneous payments to individuals;
- recover erroneous payments; and
- determine additional loss related to non-salary expenses.

Response

Management provided responses to the recommendations. We incorporated their responses into the full report.

Contents

BACKGROUND1

RESULTS1

MANAGEMENT’S CORRECTIVE ACTION.....4

OBJECTIVE, SCOPE & METHODOLGY10

BACKGROUND

Responsibilities The Division of Human Resources (HR) is responsible for the processing of all employee separations including retirement, resignation, and termination. The separation process entails communication and coordination with schools and offices, within various departments of HR, and with the Office of Payroll.

RESULTS

Separated employees from each bargaining unit were overpaid.

Criteria HR expects supervisors and employees to timely notify them of all employee separations. The Office of Payroll expects HR to timely notify them when payments to individuals should cease.

Finding There were 174 individuals from various bargaining units who were overpaid a total gross amount of \$736,568.34 from the period January 1, 2020 through March 15, 2023¹.

Cause	Number	Gross Overpayment
Leaves Process		
Lack of communication between HR, employee, and site	1	\$ 27,626.12
Total Leaves Process	1	\$ 27,626.12
Resignation Process		
Employee failed to submit resignation form promptly	11	\$ 51,209.60
HR analyst did not complete tasks promptly.	2	\$ 5,499.20
Lack of coordination between HR and site	16	\$ 143,014.65
Lack of coordination in HR	13	\$ 99,550.84
Lack of follow through by site	22	\$ 153,458.32
Total Resignation Process	64	\$ 452,732.61
Retirement Process		
Lack of coordination in HR	2	\$ 3,034.14
Lack of follow through by site	1	\$ 1,747.44
Total Retirement Process	3	\$ 4,781.58

¹ It is important to note that when the amount of \$87,053.84 from the investigation is added to the \$736,568.34, the total amount of gross overpayments identified is \$823,622.18. In addition, BCPS has received repayments from eight individuals totaling \$51,745.91 to date.

Cause	Number	Gross Overpayment
Termination Process		
Confusion about termination process at site	1	\$ 5,283.88
Confusion between HR and site about how to code payroll	1	\$ 2,199.60
Lack of coordination between HR and site	2	\$ 22,679.28
Lack of coordination in HR	4	\$ 24,524.89
Lack of coordination in HR and length of process	2	\$ 6,294.32
Length of termination process	4	\$ 5,707.55
Total Termination Process	14	\$ 66,689.52
Payroll Process		
Coded incorrectly	3	\$ 3,253.90
Payment was not stopped	4	\$ 9,382.29
Total Payroll Process	7	\$ 12,636.19
Cyber-attack		
Separation data was lost	85	\$ 172,102.32
Total Cyber-attack	85	\$ 172,102.32
Grand Total	174	\$ 736,568.34

The overpayments impacted all bargaining units:

Bargaining Unit	Number of Employees	Gross Overpayment
AFSCME	101	\$ 348,183.29
OPE	1	\$ 6,206.83
CASE	1	\$ 6,545.62
ESPBC	14	\$ 41,915.78
TABCO	57	\$ 333,716.82
Grand Total	174	\$ 736,568.34

Cause

As noted in the chart above, these overpayments occurred due to the lack of proper internal controls over various existing HR processes (82), payroll processes (7), and the cyber-attack (85). In summary:

1. Procedural gaps exist related to the lack of documented Standard Operating Procedures (SOPs).
2. Knowledge gaps exist when key employees leave or transfer from HR.
3. Ineffective communication occurred between HR, schools, offices, and employees.
4. Ineffective or no training related to HR expectations regarding resignations, retirements, and terminations.
5. The hourly timekeeping system, KRONOS, has been inactivated since the cyber-attack.
6. The cyber-attack caused some employees' separation dates to be removed from the HR system, causing them to receive payments until the separation date could be re-entered.

Effect

The risks to BCPS are serious if not corrected:

1. Reputational risk to BCPS – lack of public and employee trust and decreased employee morale.
2. BCPS financial stability is threatened due to undue financial liability to BCPS particularly related to non-salary expenses such as pension contributions, annuity contributions, and health care expenses.
3. Former employees may continue to be paid erroneously.
4. Inaccurate FTE and vacancy counts may result in inability to provide services needed by schools and offices.
5. Former employees are disadvantaged due to a potential increased tax liability.
6. There is an increased risk of fraudulent activity related to compensation for time not worked.

Recommendations Since urgent corrective actions are necessary, the Division of Human Resources should:

1. Develop and implement proper internal controls to prevent or reduce further erroneous payments to individuals:
 - Create the necessary SOPs to address the procedural and knowledge gaps that currently exist.
 - Define and communicate expectations for HR staff and their business partners.
 - Conduct routine training related to the SOPs and expectations.
 - Document training attendance and retain in accordance with records retention schedules.
 - Fast track the implementation of KRONOS and ERP system.
2. Determine if and how the overpayments to the individuals will be recovered.
3. Determine the loss associated with non-salary related expenses such as pension contributions, annuity contribution, state and local taxes paid, and health care expenses.

MANAGEMENT'S CORRECTIVE ACTION

This corrective action plan addresses findings for matters within the Human Resources scope of business identified in the Audit Report dated June 2023.

1. Develop and implement proper internal controls to prevent or reduce further erroneous payments to individuals:
 - The Office of Staffing and the Office of Payroll collaborated to ensure that the proper employment status has been updated in CGI for the 174 employees. These employees' previous inactive (I) status allowed for payments to be processed. It is important to note that some of these employees were reactivated to this I status after the ransomware attack. Of the 174 individuals who were separated from employment, 169 have officially been terminated from Baltimore County Public Schools. The 169 former employees' status in the system has been updated and noted as "X". This notation prevents any future payment to the former employee. Of the 174 individuals, five (5) have been reemployed in some capacity within the system.
 - Create the necessary Standard Operating Procedures (SOP) to address the procedural and knowledge gaps that currently exist.
 - As it relates to SOPs for overpayment regarding employees who are not reporting to work, Human Resources (HR) will begin to implement the following:

- As it relates to the resignation and retirement process, HR will communicate systemwide, to schools and offices, of the importance of notifying HR of the resignation and/or retirement of an employee. In addition, HR will communicate where to find the resignation form, the appropriate process for completing and submitting the form immediately. If the employee does not submit the resignation form, then the “No Call, No Show” process will be followed and implemented by the employee’s supervisor. The process regarding an employee’s notification of separation from the system can be located in Superintendent’s Rule 4402. Communication will be sent out the week of August 14, 2023.

If an employee is absent but in contact with their supervisor regarding their use of leave time, supervisors will abide by the absence management processes.

- Termination recommendations made by the Division of Human Resources will immediately result in a Temp 990 form completion. The form will be disseminated to the appropriate staff to stop payment, remove access, and update the HR Advantage system.

The Temp 990 form is an internal process and follows Superintendent’s Rule 4402. This process and the responsibilities associated with the process are documented in the SOP for Completion of Notification of Separation/Suspension from Employment. This form is only utilized for terminations for separation purposes within the HR system. The resignation form is used to identify the employees ‘intend and is therefore the documentation used to for separation purposes within the HR system.

- Once the hearing is conducted by the Office of Employee and Student Hearings and the 30-day appeal process has been followed, a final Temp 990 form will be completed. This final form is utilized to finalize the record in the HR Advantage system. All employees are entitled to due process and, therefore, have the right to a hearing.
- In collaboration with the Division of Information Technology (DoIT), staff worked to automate the Personnel Action Form (PAF) process for efficiency and accountability purposes via Smartsheet. Staff developed the SOP based on this new automated process. Currently, the SOP and the automated process were tested by Staffing, to confirm the workflow is accurate and functioning.

HR staff are working with a pilot group beginning August 1, 2023, prior to a systemwide implementation. The target date for full implementation is October 2, 2023.

- Define and communicate expectations for HR staff and their business partners.
 - HR leadership will begin to implement and communicate changes as it relates to the new process, if applicable, for resignations, retirements, “No Call, No Show,” and absence management. Expectations will be documented, and a plan will be provided to the newly appointed chief human resources officer (CHRO) for review. A meeting will be scheduled to discuss, review, and set the expectations for the training schedule with HR leadership the first week of August.

After the plan is reviewed and approved by the CHRO, HR supervisors will be expected to meet with their staff no later than August 25, 2023, to review the expectations and plan.

- The PAF automation process is targeted for systemwide implementation on October 2, 2023. Office supervisors will be expected to meet with their staff to review no later than September 18, 2023. Please note, the PAF process is separate from employment. PAFs are utilized to address pay changes, acting capacity, new hires, location changes, transfers, promotions, demotions, etc.
- Conduct routine training related to the SOPs and expectations.
 - Training, if applicable, as it relates to resignations, retirements, “No Call, No Show,” and absence management will begin in September 2023. HR staff will prepare a routine training schedule to be shared with principals, office heads, supervisors, etc. across the system. The training schedule will be shared no later than August 25, 2023. A meeting is scheduled to discuss, review, and set the expectations for the training schedule with HR leadership the first week of August.
 - As part of the original plan, a PAF training course was scheduled for Friday, May 12, 2023, at 1:00 p.m. However, the training was postponed due to the consistent issues with the Smartsheet automation. In collaboration with DoIT and various stakeholders, the automation was corrected for use.

HR staff met on June 16, 2023, and June 21, 2023, to test the automated process. Participants included various end users including representatives from HR, Office of Transportation, Department of Research, Accountability, and Assessment, and the Office of Continuous Improvement. After discussions with the Office of Transportation, based on the amount of PAFs submitted during the summer, HR elected to work with the Office of Facilities Operations since their employees are 12-month positions.

A meeting was held on July 20, 2023, to discuss and introduce the process to the pilot group. The pilot group originally consisted of the Facilities Operations

manager, HR supervisor, and two (2) HR analysts. The pilot group will meet again to include the administrative secretary who will be completing the PAFs for the Office of Facilities Operation the week of July 31, 2023. It was determined that PAFs for the Northwest area would be used during the pilot window, which will be from August 7, 2023, through August 18, 2023.

A follow-up meeting is scheduled for August 18, 2023, to discuss feedback from the pilot group. Based on the feedback, if it is determined that additional testing is needed, the timeline will be revisited.

If further testing is not needed, the implementation of the new electronic PAF process will be expanded to the entire Office of Facilities Operations staff beginning the week of August 21, 2023. HR will continue to work closely with the Office of Facilities Operations for two weeks to ensure accuracy and efficiency of the new process.

Based on their feedback, the SOP will be reviewed and finalized the week of September 4, 2023. Systemwide training will be conducted the week of September 18, 2023, with full systemwide implementation effective October 2, 2023. The training will be led by the HR supervisor, with the support of the newly appointed HR manager and analysts. All parties responsible for submitting PAFs will be a part of the training.

A quarterly check-in will be conducted throughout the 2023-2024 school year to ensure we remain in compliance. Bi-annual training will be conducted thereafter.

Attendees at the training will include HR analysts, HR supervisor, HR manager, and the appropriate parties who currently complete PAFs. The topics are as follows:

- Review the SOP;
- Review the Microsoft Form and discuss accessing and utilizing the document;
- Discuss the automated reminder email staff will receive each week; and
- Provide participants an opportunity to complete a test entry to familiarize themselves with the process.

Additionally, new HR staff members will receive training for various SOPs during their onboarding. The PAF SOP will be included in the process.

- Document training attendance and retain in accordance with records retention schedules.
 - A list of staff attendance will be documented and will be shared with the Office of Internal Audit.

- Fast track the implementation of KRONOS and ERP system.
 - The implementation of KRONOS and the ERP system is being addressed by the Divisions of Fiscal Services and Information Technology. The pilot rollout of the KRONOS system is scheduled for mid to late August. The full ERP implementation is tentatively planned for July 2025. The average implementation timeframe of an ERP system is 21-months (about 2 years). The exact rollout schedule will be determined by the vendor and the business units soon after the contract award planned for July 2023. Since the approach is to stagger implementations during this period, finance modules may go before or HR or vice versa. We will know better once the implementation vendor is on board.
 - There is currently a stop payment code in place. The coding is titled “Temp 990” and is initiated based on the Temp 990 Form. In addition, HR recommends considering eliminating the current practice of pre-populating time for non-exempt employees, thus requiring a timesheet to be approved by the supervisor and submitted to the Office of Payroll for accurate processing on a bi-weekly basis.
- 2. Determine if and how the overpayments to the individuals will be recovered.
 - Letters have now been sent to all those receiving overpayments and we have begun receiving reimbursements.
 - A report that lists employees being paid with a status of inactive that was lost in the cyberattack has been restored. The report is reviewed as part of every payroll to verify that payments are valid and correct. Restoring this critical control helps to identify any payments that are invalid or otherwise incorrect before they are paid.
 - HR and Payroll are working to further improve procedures. As soon as HR indicates that an employee has been overpaid, Payroll will begin the process of collecting the overpayment from the employee. Payroll will inform the employee of the overpayment and work with the employee on a repayment plan.
 - Payroll will also work with the Office of Law to develop additional procedures for when a former employee is non-responsive to our communications or will not repay the amount owed. A meeting was held on July 31, 2023, to discuss the legalities to collect funds of overpayment of separated employees.
- 3. Determine the loss associated with non-salary related expenses such as pension contributions, annuity contribution, state and local taxes paid, and health care expenses.
 - Payroll has begun to identify and collect the non-salary related expenses. For example, as we collect overpayments from employees, we are then able to collect the employers share of FICA tax from the federal government. In addition, we reissue a

W-2 to the employee which allows them to file an amended tax return if necessary to collect any tax overpayments they are due.

- Payroll will work with the Office of Law to develop procedures for the other contributions that BCPS can recover. Adjusting entries will be made to reverse the deductions when repayment is received. A meeting was held on July 31, 2023, to discuss the legalities to collect funds of overpayment of separated employees.

Responsible Person(s)

- Chief Information Officer, Chief Financial Officer, Chief Human Resources Officer, Executive Director, Human Resources, Director, Staffing, Supervisor, HR Staffing, Director, Office of Technology Solutions Support, Director, Human Resources, Manager, HR Staffing, Manager, Facilities Operations
- Workforce Manager, Principals, Supervisors

Anticipated Completion Date

August 31, 2023 – KRONOS/UKG Pilot

October 2, 2023 – PAF Systemwide Implementation, HR Training Schedule, and HR Expectations

July 2025 – ERP Full Implementation

OBJECTIVE, SCOPE & METHODOLOGY

Objective To determine the extent, number, and overpayment amounts to separated and current employees by bargaining unit for a specified date range.

Scope The audit period is January 1, 2020 through March 15, 2023.

Methodology To achieve the audit objectives, we performed the following:

- We identified 4,662 separated BCPS employees
- We calculated the amount of overpayment
- We reviewed email activity to determine why the overpayment happened.

Limitations The causes for each overpayment were based upon information available for review in email activity.

As a result of the cyber-attack, some payments from January 2020 through January 2021 were deleted from the HR system and were not available for review.