



***METROPOLITAN GOVERNMENT OF  
NASHVILLE AND DAVIDSON COUNTY***

***OFFICE OF INTERNAL AUDIT***

**Professional Audit and Advisory Service**

**FINAL REPORT**

**Audit of the Metropolitan Nashville  
Public Schools Payroll Process**

Date Issued: March 27, 2012

Office Location and Phone Number

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*The Metropolitan Nashville Office of Internal Audit is an independent audit agency  
reporting directly to the Metropolitan Nashville Audit Committee*

**EXECUTIVE SUMMARY**  
**March 27, 2012**

Results in Brief	Recommendations
<p>We performed an audit of the processes and controls in place pertaining to the operations of the payroll process in the Metropolitan Nashville Public Schools (MNPS). Key audit objectives and conclusions are as follows:</p> <p>1. <i>Were EnterpriseOne payroll entry privileges limited to authorized personnel?</i></p> <p><b>Generally yes.</b> However, MNPS management relied on Metro Nashville Information Technology Services Business Solution’s security review processes to adjust user access rights in the EnterpriseOne system. This process worked except for the summer break (May through August) when numerous changes occurred.</p> <p>2. <i>Were MNPS payroll process controls working as intended to prevent fraudulent or improper payments and gross errors?</i></p> <p><b>Generally yes.</b> However, some overpayments were made to employees regarding improper pay codes, unsupported overtime and discontinued job functions.</p> <p>3. <i>Were leave benefits provided, used and recorded in accordance with the certificated teacher’s leave policy and the support personnel leave policy?</i></p> <p><b>Generally yes.</b> Although some sick leave usage transactions (pay type 854) were found to have been reversed without apparent justification. During the two year audit scope 2,935 instances of reversed sick leave transactions were found. Sample testing indicated that 16 of 46 of the tested transactions lacked verifiable justification.</p>	<p>Key recommendations were management of MNPS should:</p> <ol style="list-style-type: none"> <li>1. Implement a policy detailing the management of user access rights. Access to information systems should be granted based on specific definition in accordance with job description and should be removed upon termination.</li> <li>2. Proactively review employee access rights upon hiring, transfer, termination and modification of job requirements and promptly notify MNPS human resources and Metro Nashville Information Technology Services Business Solutions.</li> <li>3. Implement a policy that timekeepers may not enter negative hours for sick leave.</li> <li>4. Require all overtime pay be approved on an individual basis by signature approval of the principal or department head, prior to the Time and Pay register being forwarded to MNPS Business Operations.</li> <li>5. Ensure that certified proof of mailing and receipt is obtained for each overpayment to departing employees.</li> </ol> <p>Management’s response can be seen in Appendix A, page 15.</p>

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# INTRODUCTION

## AUDIT INITIATION

As part of the annual audit work plan, the Office of Internal Audit conducted an audit of the Metropolitan Nashville Public School's payroll process. The basis for conducting this audit was due to the financial impact payroll costs have on the Metropolitan Nashville Public School system. Payroll costs were the most significant single item of the Metropolitan Nashville Public School's fiscal year 2011 \$670 million budget.

## BACKGROUND

Metropolitan Nashville Public Schools, hereinafter referred to as MNPS, is a vast and diverse school system, serving students from more than 80 different countries and of more than 70 different languages. MNPS has evolved over the years into one of the most racially, ethnically, and socio-economically diverse school districts in the country. The district is comprised of 139 schools, including 72 elementary schools, 34 middle schools, 21 high schools, three alternative schools, four special education schools, and five charter schools. MNPS is also proud to have the region's first Big Picture and Diploma Plus high schools, as well as 12 high schools implementing themed-based academies and a Middle College High School that offers dual high school and college enrollment

During the audit scope, we reviewed gross payroll in excess of \$972 million paid to 16,150 different individuals using 162 pay types.

### Exhibit A: Basic MNPS Payroll Amounts Fiscal Years 2010 and 2011

Pay Type	FY 2011	FY 2010
Regular Pay	\$385,188,162	\$400,798,989
Fringes	128,249,881	119,465,104
Other Salary	7,190,700	7,897,400
Overtime	1,417,800	2,164,630
<b>Total</b>	<b>\$522,046,543</b>	<b>\$530,326,123</b>

Source: Metro Nashville Finance Department BAR Report

## PAYROLL PROCESS

The MNPS payroll process cuts across various different departments within and external to MNPS. Initially the MNPS Human Resources department is engaged with the employees while the MNPS Department of Financial Operations plays a larger role on a weekly basis. All individual schools and other departments enter and approve time for departmental employees. Final processing and check issuance is performed by the Payroll Division of the Metro Nashville Finance Department, who processes the payments for MNPS much as a contractor would.

One of the most important employees for processing payroll is the timekeeper at each school or department. The timekeeper's role is to process payroll for certificated teachers and support employees within their school or department. Time and leave are entered through the use of various codes representing "pay types" (162 used during the audit scope). This is facilitated through timekeeper training and day to day activities of collecting employees' leave request forms and verifying time and attendance. The timekeeper is required to ensure that the principal or department head signs and dates the payroll documents prior to the data being input into Metro Nashville's EnterpriseOne financial system. The timekeeper works closely with the MNPS Financial Operations Department to perform the weekly functions while Financial Operations works closely with the MNPS Human Resources department regarding an employee's information and status.

The principal or department head's role is to review and approve by signature all payroll documents before payroll is entered into EnterpriseOne. They also review and approve/disapprove an employee's leave request form. Once payrolls are reviewed and approved, the timekeeper enters all payroll information in EnterpriseOne. Before payroll checks and transfers are processed, Metro Nashville Payroll Division (Finance Department) conducts a final review to determine that data is consistent with pay types and to prevent gross errors resulting from improper entry. However, the Metro Nashville Payroll Division has limited or no knowledge of the employee's actual circumstance or work hours and no way of knowing if the hours and leave entered are actually what the employee worked. This must be done at the timekeeper and principal or department head level. Most employees are paid via direct deposit but some employees are still paid via hardcopy paper checks that are delivered to the schools and distributed by the timekeeper. During the hiring process, prospective employees are urged but not required to take advantage of the direct deposit option.

## **INFORMATION TECHNOLOGY**

EnterpriseOne Software: The computer system used to process MNPS and Metro Nashville payroll is JD Edward's EnterpriseOne software. The software originally created by JD Edwards is now owned by Oracle Software. The payroll module is integrated into the other financial functions within EnterpriseOne.

QuickHire: System where employee's personal information is entered to create the employee's personnel file.

SmartFind: System formerly known as Substitute Employee Management System. Substitute teachers use this system to accept/refuse assignments. Teachers (certificated) use this system to alert principals that they will be absent (therefore informing substitute teachers of an opening assignment for that particular day).

SearchSoft: System where applicants apply for vacant positions.

## OBJECTIVES AND CONCLUSIONS

1. *Were EnterpriseOne payroll entry privileges limited to authorized personnel?*

**Generally yes.** However, MNPS management relied on Metro Nashville Information Technology Services Business Solution's semi-annual role confirmation listing and the Last Check Status/Transfer Report security review process to adjust user access rights in the EnterpriseOne system. This process worked except for the summer break (May through August) when numerous changes occurred. Computer security privileges remained active until returning personnel and location assignments could be determined.

Also, EnterpriseOne privileges to enter payroll time was granted to 16 employees' with authority to approve payroll (Principals, Assistant Principals, or Directors) and nine (9) employees' which appeared to not have timekeeping job responsibilities (MNPS Information Technology Help Desk Support, etc.). Furthermore, out of 14 separated MNPS employees tested, seven (7) had active MNPS network accounts five months after separating from MNPS (see Observation A).

2. *Were pay recipients authorized employees and pay periods approved by school principals for school payroll and department heads for support personnel?*

**Yes.** Pay registers and employee rosters were signed prior to payroll entry as required. Our testing of a sample of 133 employee's pay documents found no material variances. As of July 1, 2011, the approved payrolls were provided to the MNPS Department of Financial Operations each week rather than after the end of the school year, as had previously been the case. This action increases the strength of the MNPS controls.

3. *Were payroll quantities (hours, exceptions and ancillary items) accurately recorded in EnterpriseOne?*

**Yes.** Payroll information was first entered onto an MNPS timesheet. The timesheet contains the exceptions (overtime, leave, mileage reimbursement, etc.) for each pay period. The information was then logged in daily on the timesheet then entered in EnterpriseOne during the payroll process. We tested 133 support employees and certificated teachers' timesheets for correct hour entry and 66 support employees' timesheets for ancillary items. Exceptions were not considered material.

4. *Were payroll rates (regular pay, special pay and ancillary items) accurately recorded in EnterpriseOne?*

**Yes.** In order to receive an increased pay rate, teachers must present documentation of degrees and/or training to MNPS Human Resources personnel. Pay changes were determined using approved criteria. Documentation was kept in employee folders. No material exceptions were noted during the audit. However, issues with required documentation and organization of employee folders were observed (see Observation B).

5. *Were payroll source documents retained in accordance with MNPS retention schedules?*

**Yes.** The *Timekeeper Training Manual* stated that timekeepers were to keep all payroll paperwork for the current school year for the annual audit in June. Back up documentation was then forwarded to the central office for storage. Our testing indicated no material differences.

6. *Were MNPS payroll process controls working as intended to prevent fraudulent or improper payments and gross errors?*

**Generally yes.** However, some overpayments were made to employees regarding improper pay codes, unsupported overtime and discontinued job functions. There were over-payments made to employees and departing employees related to improper pay types, unsupported overtime, discontinued multiple job functions (coaching, etc.), non-collection of overpayments, etc. (see Observations D, E, F, and G).

Out of a sample of 53 instances of overtime payments, four (4) (7.6%) were found to be without support. Another 71 overpayments totaling \$86,534 were made to departing employees. Only 28% of these overpayments were returned by the departing employee. Finally, 839 overpayments greater than \$100 (totaling \$646,282) were made to current employees that were being recovered. It should be noted that all of the overpayments together represent only an extremely small portion of the \$972 million payments reviewed.

7. *Were leave benefits provided, used and recorded in accordance with the certificated teacher's leave policy and the support personnel leave policy?*

**Generally yes.** Testing of 133 individual's leave indicated most leave was being captured and recorded correctly. However, regarding sick leave usage, some sick leave usage transactions (pay type 854) were found to have been reversed without readily apparent and/or well documented justification. During the two year audit scope there were 2,935 total instances of sick leave reversals. We did not find proper support or apparent justification for 34.8% of the 46 sample instances tested (see Observation C).

It should be noted that during the audit scope there were 141,673 instances of sick leave being used and the vast majority of sick leave usages were taken and recorded appropriately.

8. *Did payroll required and optional deductions (medical, insurance and savings) match MNPS benefits rate schedules?*

**Yes.** Deductions for 133 employees were tested and yielded no variances. No material exceptions were noted.

## OBSERVATIONS AND RECOMMENDATIONS

### *A - Improve User Access Control*

Maintenance of payroll related computer privileges could be improved. MNPS management relied on Metro Nashville Information Technology Services Business Solution's semi-annual role confirmation listing and the Last Check Status/Transfer Report security review process to adjust user access rights in the EnterpriseOne system. This process worked except for the summer break (May through August) when numerous changes occurred.

User access management weaknesses included:

- EnterpriseOne security privilege to enter payroll time was granted to 16 employees' with authority to approve payroll (Principals, Assistant Principals, or Directors) and nine (9) employees' which appeared to not have timekeeping job responsibilities (MNPS Information Technology Help Desk Support, etc.).
- Computer security privileges remained active until returning personnel and location assignments could be determined. During the summer break 20 MNPS EnterpriseOne user accounts remained active after the employees terminated employment. Two of these user accounts had the privilege to enter payroll. The average time to remove EnterpriseOne user account privileges was 52 days in this period.
- Out of 14 separated employees tested, seven (7) had active MNPS network accounts five months after separating employment in June 2011.
- MNPS Human Resource Department and Business Operations Office did not maintain a centralized listing of personnel who were authorized to update payroll information related to pay rates, pay class, start date, termination date, or timekeeping in EnterpriseOne. MNPS management relied on Metro Nashville Information Technology Services Business Solution's semi-annual confirmation of security roles to affirm payroll related privileges.
- During the course of the audit, MNPS updated the EnterpriseOne User Access policy but did not define the rights needed for different roles in the payroll process such as HR Inquirer, HR Manager or HR Coordinator to ensure segregation of duties (i.e. no single role should have the rights to enter payroll and change rates; no payroll approvers should have enter payroll role privileges). Principals and department heads with delegated authority to approve payroll should only be granted EnterpriseOne inquiry payroll related roles.

*Criteria:*

- ISO 27002:11.2 User Access Management

- ISO 27002:8.3.3 Removal of Access Rights: “The access rights of all employees, contractors and third party users to information and information processing facilities should be removed upon termination of their employment, contract or agreement, or adjusted upon change.”

*Risk:*

Data pertaining to employee payroll might be altered without proper authorization.

*Recommendations:*

The management of MNPS should:

1. Implement a policy and provide training on management of user access rights. Access to information systems should be only granted based on specific definition in accordance with job description and should be removed immediately upon termination. Special attention should be given to ensure segregation of duties and to limit privileged access rights.
2. Proactively review employee access rights upon hiring, transfer, termination and modification of job requirements and promptly notify MNPS Human Resources and Metro Nashville Information Technology Services Business Solutions. Nine month employee computer network and EnterpriseOne privileges should be suspended on the last work day for the school year or anytime an employee will be on prolonged leave from work (in excess of five to ten work days).
3. Define the rights needed for different roles in the payroll process such as HR Inquirer, HR Manager, HR Coordinator, etc. in order to ensure segregation of duties in design. These roles and rights should be communicated to Metro Nashville Information Technology Services Business Solutions for implementation.

## ***B - Personnel File Standardization***

MNPS personnel files, including those of certificated teachers, were frequently found to be unorganized and non-standard with no logical order or inventory of required documents. Some files were unable to be located.

*Criteria:*

- Sound business practices
- The COSO Internal Control - Integrated Framework establishes a common definition of internal controls, standards and criteria by which organizations can assess their internal control systems. It states: “Filing and maintaining records in accordance with laws, regulations and good business practices as well as using checklists or other tools to ensure appropriate records are received and retained is essential (page 85).”

*Risk:*

Employees not having paperwork or any type of documentation dated within the last two school terms in their file may be an indication of a ghost

employee. Important personnel documents may inadvertently be lost because there isn't a system set up for the file clerk to go by when inputting documents/paperwork into employee files.

*Recommendation:*

The management of MNPS should create a standardized employee personnel file with an inventory sheet so that all documents will be similarly ordered and verified for presence.

## **C - Reversal of Sick Leave**

Some sick leave usage transactions (pay type 854) transactions have been reversed with no matching unpaid absence or other matching transactions in 16 of 46 of the instances reviewed. An 854 reversal transaction was most commonly used if sick leave had been previously entered on a prior pay period and the employee did not have any sick leave available. This would reverse the sick leave already provided. Or, such a transaction could be used on those rare occasions when the timekeeper enters sick leave for the wrong employee. In the former case, the negative 854 transaction should be followed by an 851 *unpaid absence* on the same pay period or another type of available leave or payment option.

Testing of 46 sample instances of 854 reversal transactions (2,935 total) indicated that in 34.8% of the instances the reversals were made without apparent and/or well documented justification.

*Criteria:*

- MNPS Pay Type Description and Definitions: "854 - Sick Pay – MNPS sick leave or death of an extended family member – enter hours only."
- *COSO Internal Control - Integrated Framework* establishes a common definition of internal controls, standards, and criteria by which organizations can assess their internal control systems. It states: "Review and approve all nonstandard items such as sick, vacation and bonus pay (page 120)."

*Risk:*

Improper and unsupported use of various transaction codes increase the risk that they are being misused. Unjustified leave may be provided to employees who have not earned these benefits. Additional resources are then required to provide available manpower for employees that are not present.

*Recommendations:*

1. The management of MNPS should:
  - a. Implement policy that timekeepers may not enter negative hours for sick leave. All such needs should be entered only by the MNPS Business Office after first documenting the need.
  - b. Formulate a methodology that would allow principals or department heads to be aware of an employee's leave time usage and availability

before signing their approval on payrolls. This would alleviate negative accruals and negative leave balances.

2. The management of **Metro Nashville Finance** should request the 854 pay code be modified in EnterpriseOne so that negative amounts may not be entered. Infrequent mistakes that require reversal can be entered by another method at the MNPS Business Office.

## ***D - Overtime Hours Unsupported***

Internal controls related to approval for overtime pay were not working effectively to prevent premium pay without supporting documentation. Total MNPS overtime pay during audit scope was 26,719 instances for \$4,639,565. Out of a sample of 53 instances of overtime pay, four payment instances (7.6%) were found to have been made without adequate support and were not caught by existing controls. Two of the four instances showed overlapping overtime pay for the same individual related to a federal grant. Auditing some timesheets became problematic because multiple time sheets for the same individual contained hours for the same day and contained no a.m. or p.m. notations. Forty-seven work hours were affected by this time overlap. All four unsupported instances were between 50 and 100 hours of overtime pay in addition to the employee's regular pay.

### *Criteria:*

- The COSO Internal Control - Integrated Framework establishes a common definition of internal controls, standards, and criteria by which organizations can assess their internal control systems. Reviewing and approving non-standard hours is essential to good control (page 120).
- Sound business practices.

### *Risks:*

Payments may be made for premium pay that is not worked or in gross error.

### *Recommendations:*

The management of MNPS should:

1. Require that all overtime pay be approved on an individual basis by signature approval of the principal or department head, prior to the Time and Pay register being forwarded to MNPS Business Operations.
2. Require MNPS Business Operations review of all overtime in excess of ten hours per pay period for one individual.
3. Require the MNPS Business Office to initiate an overtime report each pay period of all overtime paid during the just processed pay cycle and screen the report for obvious errors and hour submissions that seem excessively large.

4. Reexamine all hours worked, documentation and payments received for the affected federal grant(s) in question. Return any payments made in error to the grantor.
5. Include a.m. and p.m. notations on all exception hour timesheets.

## ***E - Overpayments to Separating and Terminated Employees***

Internal controls were not working effectively to prevent overpayments to employees who separated. This was evidenced by 71 overpayments in the amount of \$86,535 made since July 1, 2009, to employees who were already separated or who subsequently left employment. The two most frequent instances of overpayments relate to:

- Employees still on the pay roster at the beginning of the school year who worked the previous year but did not report for the present year.
- Employees who provide notice of intent to depart but Pay on Standard Hour (POSH) payments were continued.

Standard procedures were to put departing employees in a pay status “9” so that adjustment of accruals could be made, but the pay status does not prevent a continuation of pay checks even if no hours are entered since POSH is automatic. Thus, inaction by the timekeeper or MNPS Human Resources will result in pay checks continuing to be sent to the school. Additionally, once changed to pay status “9”, all employees (regardless of previously being on direct deposit) begin receiving hard copy paychecks that were sent to the schools, creating additional risks.

Contrastingly for Metro Nashville general government employees not associated with MNPS, the risk was mitigated since putting an employee in pay status “9” requires that all hours be manually entered by the timekeeper, which is not done at MNPS.

Another complexity that results in overpayments is the use of *True and Diluted* pay, a concept that ensures teachers receive exactly the same amount for each and every paycheck. Any teacher not starting at the exact beginning of the pay period will initially be overpaid for hours worked since they will be paid as though they worked from the beginning of the period. Final checks will be for amounts less than hours worked. Discussions with Metro Nashville Payroll Division indicated that this concept causes numerous and frequent problems. The situation can be dealt with by other pay options causing only the first and last paycheck to be for differing amounts. Some discussions with MNPS indicated that *True and Diluted* pay may be ending for the 2012-2013 school year.

### *Criteria:*

- *The COSO Internal Control - Integrated Framework* establishes a common definition of internal controls, standards, and criteria by which organizations can assess their internal control systems. Reviewing and approving payroll and subsequent changes is essential to good control. Additionally, *COSO Internal Control Integrated Framework* states: “where

practical, require valid identification and employee signature to receive paycheck (page 121).”

- MNPS Timekeeper Training Manual procedures
- *Internal Control and Compliance Manual for Tennessee Municipalities:* “...Department Heads should promptly notify the accounting office of all employee terminations...”

*Risk:*

- Not having positive control of payments made to employees increases the risk that fraudulent payments will be made. Scarce resources are paid out without any services received.
- Hard copy checks carry more risks than direct deposits since they can be deposited or even cashed by anyone. Often, it is not possible to determine exactly who cashed the check due to “pay to the order of” endorsements to second and third parties while depositing the check in a local personal or business account or by using check cashing services.

*Recommendations:*

The management of MNPS should:

1. Require positive assurance from school principals based on on-site presence that all employees on the initial school year pay roster have actually reported to work for the new school year.
2. Begin removing POSH pay at the same time that pay status 9 is entered for final check processing. This would require timekeepers to coordinate with MNPS Human Resources and manually enter all hours for employees who are terminating.
3. Discontinue the practice of True and Diluted pay.

## ***F - Overpayments to Previous Employees were not Collected***

Overpayments to employees who separate were not effectively pursued for repayment. For 12 of the 71 overpayments reviewed no certified letter was sent to the previous employee notifying them of the debt.

Correspondingly, a majority of repayments were not received for overpayments made to previous employees. Of the \$86,535 current balance since July 1, 2009, \$24,165 had been collected, which was 28% of the total.

The MNPS *Procedures for Underpayments and Overpayments in Payroll* (FMP 2.115) list the only stated consequence for non-repayment was to mark “unpaid” marked on the requesting correspondence placed in the employee file and “Repayment will be a condition of reemployment.”

*Criteria:*

- *The COSO Internal Control - Integrated Framework* establishes a common definition of internal controls, standards, and criteria by which organizations can assess their internal control systems and states: “establish and enforce collection policies (page110).”
- Prudent Business Practices

*Risk:*

Not following up on overpayments to previous employees establishes an informal expectation that there is no need to make the repayment. Further, departing employees may attempt to purposely engineer overpayments that they will not have to repay. Monetary resources are unavailable for other needs.

*Recommendations:*

The management of MNPS should:

1. Ensure that certified proof of mailing and receipt is obtained for each and every overpayment to departing employees. This should be periodically inspected by someone in management.
2. Turn all unreimbursed overpayments over \$100 to a collection agency after 90 days.
3. Update policy FMP 2.115 to reflect turning the account over to collection.

## ***G - Overpayments to Current Employees***

Controls were insufficient to prevent overpayments to employees. During the audit scope there were 869 instances of overpayments greater than \$100 to current employees. These overpayments totaled \$646,282 and were later recouped through the use of adjustment transactions (pay type 839). Although the funds were being recovered, MNPS lost use of these monies for a period of time and remains at risk for the employee leaving employment before repayment in full has been made. Some of the reasons for the overpayments were:

- Payments for instruction never completed
- Payments for discontinued multiple job functions (coaching)
- Miscalculation of hours
- Improper entry of hours worked
- Use of the wrong pay type, etc.

Pay type usage errors were also noted in Observations F and Observation G. Analysis of pay type codes found only about a third of the 162 pay types seen during the audit scope were used over 1,000 times (out of 1,779,962 pay code transactions) during the two year period.

The chart below shows that a grouping of 54 pay type codes accounted for 99% of all payroll transactions, while the other 108 pay codes combined were used 1% of the time. Having an extremely large set of pay types, many of which were seldom used can lead to problems with accidental or intentional misuse.

**Exhibit B - Stratification of Pay Type Usage**

Pay Type Usage Grouping	Number of Pay Types	Percent Usage of Grouped Pay Types	Instances of Use Per Pay Type Grouping
1 - 100	71	0.1	1,313
101 - 200	10	0.1	1,329
201 - 300	5	0.1	1,222
301 - 400	3	0.1	942
401 - 500	4	0.1	1,871
501 - 600	5	0.2	2,736
601 - 700	2	0.1	1,289
701 - 800	2	0.1	1,578
901 - 1,000	6	0.3	5,796
>1,000	54	99.0	1,761,886
<b>Totals</b>	162	100.0	1,779,962

Source: EnterpriseOne Data Compiled Using Audit Command Language

*Criteria:*

- The COSO Internal Control - Integrated Framework establishes a common definition of internal controls, standards, and criteria by which organizations can assess their internal control systems. Reviewing and approving payroll and subsequent changes is essential to good control.
- MNPS Timekeeper Training Manual procedures

*Risk:*

Not having positive control of payments made to employees increases the risk that fraudulent payments will be made. Scarce resources are paid out without any services received. Although the payments are being recouped, employees may terminate employment while amounts are still outstanding. Additionally, monetary resources are tied up and unavailable for other short term needs.

*Recommendations:*

The management of MNPS should:

1. Hold timekeepers accountable for errors and oversights, possibly considering using the number of overpayments as one evaluation factor on performance reviews.
2. Revise and/or consolidate its current listing of pay type codes to eliminate the many seldom used codes.

# GENERAL AUDIT INFORMATION

## STATEMENT OF COMPLIANCE WITH GAGAS

We conducted this performance audit from March 2011 to January 2012 in accordance with generally accepted government auditing standards with one exception of the independence standard related to personal impairments.

The In-Charge Auditor's personal independence was impaired after December 5, 2011, when the auditor applied for a position with MNPS. All other standards were complied with. (Prior to that date, all fieldwork testing had been completed.)

The standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our observations and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our observations and conclusions based on our audit objectives.

## SCOPE AND METHODOLOGY

The audit period focused primarily on the period July 1, 2009, through June 30, 2011, payrolls, financial balances, transactions, and performance on the processes in place during the time of the audit.

The methodology employed throughout this audit was one of objectively reviewing various forms of documentation, including written policies and procedures, financial information, various forms of data, reports and information pertaining to the MNPS Payroll Process. Additionally, management, administrative and operational personnel were interviewed and directly observed.

## CRITERIA

In conducting this audit, the existing Payroll and Financial Operations Department processes were evaluated for compliance with:

- Prudent Business Practices
- IT Governance Institute's Control Objectives for Information Technology (*COBIT 4.1*)
- *The COSO Internal Control - Integrated Framework Evaluation Tools*
- MNPS Timekeeper Training Manual Procedures
- MNPS Pay Type Description and Definitions
- *Internal Control and Compliance Manual for Tennessee Municipalities*
- ISO 27002:11.2 User Access Management
- ISO 27002:8.3.3 Removal of Access Rights

## **STAFF ACKNOWLEDGEMENT**

Carlos L. Holt, CPA, CFF, CFE, CIA – Audit Manager  
Sharhonda Cole, CFE – In-Charge Auditor  
Qian Yuan, CISA, ACDA – Staff Auditor

## **APPENDIX A. MANAGEMENT RESPONSE**

- Management's Responses Starts on Next Page -



Chris M. Henson  
Chief Financial Officer

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March 22, 2012

Mark Swann  
Metropolitan Auditor  
Office of Internal Audit  
222 3<sup>rd</sup> Avenue North, Suite 401  
Nashville, TN 37201

RE: Metropolitan Nashville Public Schools Payroll Process

Dear Mr. Swann:

This letter acknowledges that the Metropolitan Nashville Public Schools (MNPS) received the report entitled Audit of the Metropolitan Nashville Public Schools Payroll Process. MNPS has evaluated all of the observations and recommendations raised in the report. Each suggestion and corrective action has been considered and, wherever possible, changes have been or will soon be implemented. Specific concerns that prevent implementation of some recommendations are expressed in the attached management response.

MNPS would like to express appreciation for the assistance and cooperation of you and your staff during this process. Any improvement that this department can make toward increasing the effectiveness and efficiency of the Metropolitan Government is always welcomed.

Sincerely,

A handwritten signature in black ink, appearing to read "Chris M. Henson". The signature is fluid and cursive.

Chris M. Henson

CMH:ppw

cc. Dr. Jesse Register  
Dr. June Keel

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WWW.MNPS.ORG

**Audit of the Metropolitan Nashville Public School's Payroll Process  
Management Response to Audit Recommendations**

Audit Recommendation	Response to Recommendation / Action Plan	Assigned Responsibility	Estimated Completion
<p>A. The management of MNPS should:</p> <ol style="list-style-type: none"> <li>1. Implement a policy detailing the management of user access rights. Access to information systems should be only granted based on specific definition in accordance with job description and should be removed upon termination. Special attention should be given to ensure segregation of duties and to limit privileged access rights.</li> <li>2. Proactively review employee access rights upon hiring, transfer, termination and modification of job requirements and promptly notify MNPS Human Resources and Metro Nashville Information Technology Services Business Solutions.</li> <li>3. Define the rights needed for different roles in the payroll process such as HR Inquirer, HR Manager, HR Coordinator, etc. in order to ensure segregation of duties in design. These roles and rights should be communicated to Metro Nashville Information Technology Services Business Solutions for implementation.</li> </ol>	<p><b>Accept Recommendation</b></p> <ol style="list-style-type: none"> <li>1. MNPS does not have access to EBS authorizations or changes. MNPS policy FM 2.106 (policy attached) clarifies training requirements, requesting access, employee terminations &amp; transfer, and monitoring access authority.</li> <li>2. Access is granted or removed after attending training for authorized employees. Processing transfers, terminations, and job modifications is handled at Metro ITS upon updates by MNPS HR. We have established process / report to verify EBS roles with employee positions.</li> <li>3. MNPS is redefining how employees are authorized with EBS roles.</li> </ol>	<p>Human Resources</p> <p>Human Resources</p> <p>Human Resources</p>	<p>Policy currently in place within MNPS.</p> <p>Process within Metro ITS requires review. On 3/15/12, EBS User report was modified to correct omissions in reporting.</p> <p>Process currently under development.</p>
<p>B. The management of MNPS should: Create a standardized employee personnel file with inventory sheet so that all documents will be similarly ordered and verified for presence.</p>	<p><b>Accept Recommendation</b> MNPS is pursuing a digital document imaging management solution to assist with this issue, pending capital funding.</p>	<p>Human Resources</p>	<p>Upon funding, approval and implementation.</p>



**Audit of the Metropolitan Nashville Public School's Payroll Process  
Management Response to Audit Recommendations**

Audit Recommendation	Response to Recommendation / Action Plan	Assigned Responsibility	Estimated Completion
2. Require individual MNPS Business Operations review of all overtime in excess of ten hours per pay period for one individual.	2. All overtime is currently reviewed each payroll Monday during the pre-payroll process by Accounting from an export of time entry provided by Metro Payroll.	Accounting	Process is currently in place.
3. Require the MNPS Business Office to initiate an overtime report each pay period of all overtime paid during the just processed pay cycle and screen the report for obvious errors and hour submissions that seem excessively large.	3. Same as above. This process is already in place.	Accounting	Process is currently in place.
4. Reexamine all hours worked, documentation and payments received for the affected federal grant(s) in question. Return any payments made in error to the grantor.	4. Recommendation is being acted upon by Federal Programs. Payments made in error are being calculated to be returned to grantor. Per Federal Programs, there were no other errors found besides the one found in this audit.	Federal Programs	Process is being enforced effective 3/13/2012.
5. Include a.m. and p.m. notations on all exception hour timesheets.	5. This recommendation has been enforced.	Federal Programs	Process is being enforced effective 3/13/2012.
<b>E. The management of MNPS should:</b>	<b>Accept Recommendation</b>		
1. Require positive assurance from the school principals based on on-site presence that all employees on the initial school year pay roster have actually reported to work for the new school year.	1. MNPS Timekeepers are responsible to verify attendance within departments and schools. Running, printing, and signing rosters will ensure actual attendance. MNPS is currently pursuing an electronic timekeeping management solution (Kronos) to assist with this issue (and others), pending capital funding.	Human Resources	August 2012, process will be implemented.
2. Begin removing POSH pay at the same time that pay status 9 is entered for final check processing. This would require timekeepers to coordinate with MNPS Human Resources and manually enter all hours for employees who are terminating.	2. MNPS is currently pursuing an electronic timekeeping management solution (Kronos) to assist with this issue (and others), pending capital funding.	Human Resources	Pending funding approval.
3. Discontinue the practice of True and Diluted pay.	3. Salaried Employees working less than 12 months required the practice of True and Diluted pay.	Human Resources	Suggest employees impacted use 12-month pay option.
<b>F. The management of MNPS should:</b>	<b>Accept Recommendation</b>		
1. Ensure that certified proof of mailing and receipt	1. This has been corrected, and each overpayment is	Human Resources/	Process already in

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is obtained for each and every overpayment to departing employees. This should be periodically inspected by someone in management.	sent by registered mail, return receipt requested.	Accounting	place.
2. Turn all unreimbursed overpayments over \$100 to a collection agency after 90 days.	2. We are now working with Robinson, Reagan and Young P.L.L.C (an approved Metro Government contractor - contract#18304) on this process.	Human Resources/ Accounting	Process is being implemented.
3. Update policy FMP 2.115 to reflect turning the account over to collection.	3. Per District Policy Advisor, update is not needed. See excerpt from FMP 2.115 (policy attached) bullet #4 "The Assistant Superintendent of HR will decide on further action to collect amount due".	Human Resources/ Accounting	Process is being implemented.
<p>G. The management of MNPS should:</p> <p>1. Hold timekeepers accountable for errors and oversights, possibly considering using the number of overpayments as one evaluation factor on performance reviews.</p> <p>2. Revise and/or consolidate its current listing of pay type codes to eliminate the many seldom used codes.</p>	<p><b>Partially Accept Recommendation</b></p> <p>1. The pay types referenced in this recommendation are pay types that are off-limits to Timekeepers.</p> <p>2. We are reviewing the pay type codes to determine the seldom used ones.</p>	Department Heads/ Principals	N/A
		MNPS Finance/ Metro Payroll	June 2013