# Table of Contents

Executive Summary ................................................................. 1
Background, Scope and Objectives, and Methodology ......................... 2
   Background ........................................................................ 2
   Scope and Objectives ....................................................... 7
   Methodology ...................................................................... 7
Audit Findings, Recommendations, and Management’s Responses ................. 9
   Observation 1 - Evidence of Healthcare Invoice Review ...................... 10
   Observation 2 – Documentation of Operating Guidelines ..................... 12
Appendix ................................................................................. 13
Executive Summary

The Office of Auditor General’s (OAG) conducted a performance audit of payroll oversight and process in accordance with the Fiscal Year (FY) 2019 Audit Plan approved by the Fairfax County School Board. The Office of Payroll Management (“Payroll Office”) supports all wage payments and deductions for FCPS employees. The audit purpose was to evaluate controls and processes managed by the Payroll Office. The audit covered the period from January 1, 2017 through December 31, 2018.

The primary objectives of the audit were to perform the following:

- Determine whether payroll practices were in compliance with applicable federal and state requirements, established FCPS policies, regulations and procedures.
- Determine whether these practices and relevant internal controls effectively reduce the risk of potential payroll irregularities.

Areas of potential concern are risks associated with incorrect input of payroll information and incorrect calculation of salaries¹ and applicable deductions. The risk of payments to fictitious employees or for work not performed was not addressed in this audit, as this risk is managed outside of the Payroll Office.

As a result of the audit, OAG did not identify any findings. OAG identified two observations, related to increasing collaboration between the HR Office of Benefit Services (“Benefit Services”) and the Payroll Office for the payment of healthcare claims and documenting specific guidelines for the reasonableness checks of the Total Earnings and Deductions Calculation Report.

The Payroll Office works diligently with Human Resources (HR), school staff, principals and department program managers to ensure accurate and timely payment of wages¹ to FCPS employees and payment of all payroll-related obligations. While principals and program managers are responsible for ensuring that time and attendance is correctly reported, the Payroll Office conducts a sufficient level of monitoring and reasonableness checks to validate the accuracy of payroll expenditures. They also made significant efforts to follow up with work locations to reduce untimely time and attendance reporting.

We appreciate the consultation, cooperation, and courtesies extended to our staff by the Payroll Office.

¹Salaries and wages are used interchangeably in this report.
Background, Scope and Objectives, and Methodology

Background

Employee compensation is the largest type of expenditure for FCPS. In FY 2018, total employee compensation amounted to $2.5B, of which $1.7B were total salaries (contracted pay, non-contracted pay, salary supplements, etc.) and $0.8B were total employee benefits (retirement, insurance, social security, etc.). Of the $2.5B, $2.4B was from the School Operating Fund and $0.1B was from other non-school operating funds.

Below is the actual FY 2016 to FY 2018 total employee compensation information obtained from the FCPS FY 2020 Proposed Budget School – Appendix: School Operating Fund Expenditure Detail, and the analysis of total employee compensation as a percentage of total school operating fund expenditures.

<table>
<thead>
<tr>
<th></th>
<th>FY 2016 Actual</th>
<th>FY 2017 Actual</th>
<th>FY 2018 Actual</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Employee Compensation</td>
<td>2,239,227,396</td>
<td>2,351,068,402</td>
<td>2,441,770,683</td>
</tr>
<tr>
<td>• Total Salaries</td>
<td>1,571,841,677</td>
<td>1,638,527,753</td>
<td>1,674,701,161</td>
</tr>
<tr>
<td>• Total Employee Benefits</td>
<td>667,385,719</td>
<td>712,540,649</td>
<td>767,069,522</td>
</tr>
<tr>
<td>Total School Operating Fund Expenditures</td>
<td>2,527,050,606</td>
<td>2,635,256,033</td>
<td>2,729,684,710</td>
</tr>
<tr>
<td>Total Employee Compensation as % of Total School Operating Fund Expenditures</td>
<td>88.6%</td>
<td>89.2%</td>
<td>89.5%</td>
</tr>
</tbody>
</table>

As illustrated, total employee compensation represents the largest portion of the School Operating Fund Expenditures. At FCPS, total employee compensation makes up approximately 89% of operating expenditures each year.

The Payroll Office is responsible for all wage payments and deductions for all employees from all funds; manages pay and leave-related data, tax-related data, direct deposit information, and time and attendance data from across all work locations with FCPS; and processes payments to all vendors providing benefits or services on behalf of FCPS employees through payroll deductions.

Systems Used by the Payroll Office

The Payroll Office uses the following systems in the end-to-end payroll processes:

- **MyTime**: online application used by employees to enter time and attendance information; interfaces with Lawson
- **Lawson**: HR and payroll system
- **FOCUS**: Fairfax County Unified System that supports Finance, Procurement and Budget processes; interfaces with Lawson

Management and Organization

FCPS's Payroll Office is organized under the Department of Financial Services. It consists of 27.5 full-time positions and is led by a Payroll Director, who is supported by a Payroll Administration Coordinator and a Payroll and Benefit Accounting Coordinator. Per discussion with the Payroll Director, most of the payroll staff members have been in their respective positions for more than 11 years, and all staff had previous payroll experience prior to coming to FCPS.
The Payroll Office is divided into two sections – Payroll Administration and Payroll Accounting.

**Payroll Administration**

Payroll Administration is primarily responsible for processing payroll and is divided into biweekly and monthly payroll teams. The payroll teams monitor MyTime, the online time and attendance system in which information is entered at 300 plus FCPS locations. The individual work locations serve as the office of record for time and attendance submissions. Depending on the time of a year, there are approximately 23,000 employees that are paid on a monthly basis, and approximately 4,000 to 9,000 employees, including temporary hourly employees, that are paid on a biweekly basis. The two payroll teams are also responsible for all employee related payroll transactions including data entry for direct deposit arrangements, tax withholdings, name changes, leave balance transactions and pay adjustments.

- **Biweekly Paid Employees**

  Biweekly paid employees such as food service employees, bus drivers, custodians, maintenance personnel, substitute teachers, and temporary hourly employees require "positive time reporting". Employees are responsible for reporting and submitting their hours of time worked or leave taken. Once submitted, the timesheets are routed to their supervisor for approval.

  Once the supervisor approves the timesheets, the records are interfaced into Lawson and processed in the payroll cycle.
Biweekly paid employees are paid on a biweekly basis every other Friday, two weeks in arrears. Pay for biweekly employees reflects the hourly rate multiplied by the number of compensable hours during the pay period. Retirement deductions are taken from all regular pay. Most other deductions are taken over twenty common pay periods.

Pay for any additional duty positions or jobs such as hourly, community use, etc. is also paid two weeks in arrears, on the same pay dates as regular pay, and in a separate payment.

- Monthly Paid Employees

Monthly paid employees such as teachers, principals, and administrative support staff are on “negative” or “exception based” reporting system. They are not required to complete timesheets for regular hours worked but are required to report extra hours worked and any leave taken in MyTime by the designated deadlines. Pay for monthly employees reflects the annual salary divided by the number of working months in the fiscal year for a level, stable monthly income. Just as described above for biweekly employees, entries submitted by monthly employees for their exception time must be approved by the published deadlines.

Monthly-paid employees are paid "current month" for regular duties and pay day is the last business day of the month. Extra hours worked and leave transactions are processed one month in arrears. Pay for any additional duty positions or jobs such as curriculum development are paid one month in arrears in a separate payment. Retirement deductions are taken from all regular pay. Most other deductions are taken over ten common pay periods.

The overall payroll process for biweekly and monthly employees is relatively the same. While each work location is responsible for ensuring timely submission of time and attendance records, Payroll Administration runs reports to review unapproved records and follows up with specific work locations as needed. This helps to reduce the volume of adjustments after the approval deadline and ensure timely and accurate pay to employees.

To ensure that time and attendance records for the pay cycle in Lawson are complete, Payroll Administration compares the total number of records in MyTime against the total number of records in Lawson.

Manual Adjustments

Payroll Administration can make any necessary manual adjustments in Lawson prior to and during the processing phase of payroll. Most commonly, these adjustments are due to: i) correction of errors and omissions in reporting time and attendance that are discovered after the deadline for terminal entry, ii) retroactive personnel actions that impact pay, and iii) short-term disability adjustments that are entered by HR Benefit Services.

To correct any errors and omissions, Payroll Administration may create manual adjustments in Lawson based on the original form FS73-63 (Time and Attendance Corrections and Omissions Memorandum (“Correction Memo”)) signed by the principal or program manager, or his or her designee. Adjustments from salary changes and short-term disability benefit payments do not require Correction Memo but must be supported by records on the personnel action register or written direction provided by HR.

Manual adjustments created in Lawson during the payroll process are managed automatically with the other payroll transactions resulting in payments.
**Manual Checks**

Manual or off-cycle payments to employees occur when an employee was not paid due to an omission in time reporting or the employee's time not being approved at the time of payroll. This frequently occurs when an employee is on a leave of absence for medical reasons. When a leave extension, such as an extension of short-term disability coverage, is approved and processed by HR, Payroll Administration assesses the information from the personnel actions registers and, if necessary, calculate and submit an off-cycle payment request for processing by Payroll Accounting. This situation does not require a request or support from the employee supervisor. In the event an employee’s time was not entered or not approved by the established deadline, a request must be made from the employee's principal or director to the Payroll Office Director. If the Payroll Office can meet this request, a manual check will be processed and provided to the employee. This requirement is outlined in Regulation 5610, Pay of Personnel.

**Terminated Employees**

Late notification of employee termination to Payroll Administration may result in a payroll overpayment.

For monthly employees, if the employee’s termination date occurs prior to the end of the current month and such information is not communicated to Payroll Administration until after the pay run, Payroll Administration may not be able to cancel the current month’s paycheck and reissue the correct payroll amount based on the number of days worked within the pay cycle. In such case, Payroll Administration will prepare a detailed letter of explanation. Payroll Accounting will record the amount and mail the letter to the employee. It will also recover the overpayment from impacted employees and post the transactions accordingly in FOCUS.

Since biweekly employees are paid based on the approved work hours, overpayments due to late notification of employee termination are rare.

As of April 30, 2019, the percentage of outstanding salary overpayments (approximately $42,000) to total wages paid was 0.0025% based on a 5-year average from 2014 to 2018.

**Overuse of Leave**

Generally, if employees do not have sufficient sick leave balance, Lawson will automatically charge their sick leave to annual leave balance. If the employees are not entitled to annual leave or do not have sufficient annual leave balance, Lawson will automatically charge the negative leave balance to leave without pay so that the current month regular pay amount is reduced by the leave overuse amount. This systematic action will prevent overpayment to employees.

Payroll Administration also uses reports to identify monthly employees that have used more than 30 hours of sick leave in a pay period. If an employee has an insufficient sick leave balance, further investigation and action are necessary. The Payroll Administration staff member(s) research the employee’s status by checking information in MyTime, Lawson, and contact the work location for more information. For example, if it was noted during the research that an employee is still on leave and is not expected to return in the next month, action will be taken to stop the current month’s paycheck to avoid overpayment.
**Payroll Reasonableness Review**

At various points during payroll processing, ongoing analyses are performed to check the validity of time records. The data is continuously checked for reasonableness of hours reported and dollar amounts. If an error or questionable entry is discovered, Payroll Administration works with the appropriate office or work location to take corrective action. This may include requesting a correction memo or a change to a personnel action in Lawson.

**Payroll Accounting**

Payroll Accounting is responsible for direct deposit file submission, balancing payroll reporting, reporting and paying taxes, reconciling accounts, making payments to health and disability insurance vendors, retirement plans, and flexible spending vendors. It is also responsible for garnishments and other involuntary withholdings. Payroll Accounting consists of three sections.

**Payroll Accounting Wage and Tax**

The Payroll Wage and Tax Accounting team is responsible for balancing payroll to ensure that gross wages less deductions equal net wages. This team also ensures that the payroll amounts agree to the payroll warrant, which authenticates the cash amount required for the current payroll cycle. In addition, it ensures that all the transactions in Lawson are transferred correctly to FOCUS, FCPS’s finance and accounting system.

The Payroll Wage and Tax Accounting team also has oversight of the reporting requirements of wages and other compensation paid to employees to the Internal Revenue Service, Social Security Administration, and to the four states for which FCPS withholds income taxes - Virginia, Maryland, District of Columbia, and West Virginia by filing monthly, quarterly, and year-end required form(s). In addition, this team is also responsible for the deposit of the federal and states income taxes withheld, and the deposit of both the employer and employee social security and Medicare taxes.

In addition, the Payroll Wage and Tax Accounting team collects salary overpayments, processes off-cycle transactions, and conducts other monthly, quarterly, and year-end payroll processes and W-2 reissues.

**Payroll Accounting Benefits**

The Payroll Accounting Benefits team is responsible for ensuring that payments to vendor payments are made as required. These payments include deductions withheld from employees such as:

- garnishments, liens, and court ordered payments
- professional organizations for employee dues
- long-term disability
- 403b/457b employee voluntary retirement plan contributions
- life insurance for both active and retired employees

The team is also responsible for the collection of employees’ missed deductions of health, dental, life insurance, long term disability, and flexible spending accounts, conducting insurance billing for active employees on leave of absence, and reporting of unclaimed property and personal use of employer provided vehicles.
Payroll Accounting Health and Insurance

The Payroll Accounting Health and Insurance team is responsible for the payments of Health and Dental Premiums, administrative fees and claims, worker’s compensation claims and retirement plans such as the Fairfax County Employees’ Retirement System (FCERS), Educational Employees’ Supplementary Retirement System of Fairfax County (ERFC), and Virginia Retirement System (VRS). This team also conducts monthly Health Fund Reporting and reconciliation of VRS and the International City/County Management Association (ICMA).

Scope and Objectives

OAG conducted this audit in accordance with generally accepted government auditing standards, with the exception of peer review. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. The audit covered the period from January 1, 2017 to December 31, 2018, as well as data trends that cover FY 2016, 2017 and 2018.

The primary objectives of the audit were to perform the following:

- Determine whether payroll practices were in compliance with applicable federal and state requirements, established FCPS policies, regulations and procedures.
- Determine whether these practices and relevant internal controls effectively reduce the risk of potential payroll irregularities.

Based on our risk assessment, the focus of this audit was on the controls and processes managed by the Payroll Office. The scope of this audit did not include the risk of payments to fictitious employees or to employees for work not performed, as this risk is managed outside of the Payroll Office.

Methodology

To achieve the audit objectives, OAG performed the following:

- Reviewed applicable laws, rules, regulations, and FCPS policies and procedures
- Interviewed Payroll Office personnel
- Obtained understanding of internal controls and evaluated control design and effectiveness
- Analyzed payroll data and trend information
- Performed testing on a sample of payroll manual adjustments and last paychecks of terminated employees to verify accuracy
- Selected a sample of pay periods and reviewed payment and reporting of wages and payroll tax liabilities to ensure compliance with federal and state agencies
- Selected a sample of pay periods and reviewed payments to vendors for voluntary deductions, disability benefit, health insurance and retirement programs to ensure accuracy

The audit team performed test of controls and attribute testing to achieve the audit objectives.
Test of Controls

Based on the frequency of internal controls performed by the Payroll Office, the audit team judgmentally selected 10% samples from the total annual population for testing. For example, MyTime to Lawson Reconciliation was performed biweekly for the biweekly payroll cycle. Two samples were selected for testing according to the table depicted below.

<table>
<thead>
<tr>
<th>Frequency</th>
<th>Annual Population</th>
<th>Sample Size</th>
</tr>
</thead>
<tbody>
<tr>
<td>Biweekly</td>
<td>26</td>
<td>2</td>
</tr>
<tr>
<td>Monthly</td>
<td>12</td>
<td>1</td>
</tr>
<tr>
<td>Quarterly</td>
<td>4</td>
<td>1</td>
</tr>
</tbody>
</table>

Attribute Testing

OAG utilized the random sampling technique to select a sample of 29 payroll manual adjustments from a population of 53,482 manual adjustments recorded in Lawson during the audit period. Using the same technique, OAG randomly selected a sample of 29 employees from a population of 5,055 monthly paid terminated employees during the audit period. OAG was able to evaluate whether the payroll manual adjustments and last paycheck of monthly paid employees were properly calculated. No exception was noted. A sample size of 29 was determined to be adequate to achieve at least a 95% confidence factor.

OAG is free from organizational impairments to independence in our reporting as defined by government auditing standards. OAG reports directly to the School Board through the Audit Committee. We report the results of our audits to the Audit Committee and the reports are made available to the public via the FCPS website.
Audit Findings, Recommendations, and Management’s Responses

The finding(s) within this report has been attributed a risk rating in accordance with established risk criteria as defined in Table 1.

Table 1 – Risk Criteria

<table>
<thead>
<tr>
<th>Type</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>High</td>
<td>One or more of the following exists: Controls are not in place or are inadequate. Compliance with legislation and regulations or contractual obligations is inadequate. Important issues are identified that could negatively impact the achievement of FCPS program/operational objectives.</td>
</tr>
<tr>
<td>Moderate</td>
<td>One or more of the following exists: Controls are in place but are not sufficiently complied with. Compliance with subject government regulations or FCPS policies and established procedures is inadequate, or FCPS policies and established procedures are inadequate. Issues are identified that could negatively impact the efficiency and effectiveness of FCPS operations.</td>
</tr>
<tr>
<td>Low</td>
<td>One or more of the following exists: Controls are in place, but the level of compliance varies. Compliance with government regulations or FCPS policies and established procedures varies. Issues identified are less significant, but opportunities exist that could enhance FCPS operations.</td>
</tr>
</tbody>
</table>

During this audit, OAG did not identify any findings according to the above table. OAG identified two observations which are detailed below.
Observation 1 - Evidence of Healthcare Invoice Review

During FY 2018, FCPS made approximately $280M of claims payments to various healthcare vendors. The Payroll Office is responsible for making medical claims payments to Aetna/Innovation Health, BlueChoice Advantage, Aetna Dental PPO, and drug claims payments to CVS/Caremark under the self-insured health plans.

In addition, FCPS made approximately $10M of administrative fees to the various healthcare vendors, calculated based upon the number and type of claims processed and/or the number of enrollees as defined in the executed contracts and amendments negotiated by Benefit Services. The Payroll Office is responsible for making payments to the healthcare vendors for administrative fees.

During the audit, OAG noted the following observations:

a. Medical Claims Payments

   Every week, healthcare vendors send a medical claims detail billing spreadsheet to HR Benefit Services and a summary bill to the Payroll Office. The spreadsheet and summary bill reflect all claims processed in the previous week. The Payroll Office then processes payments to vendors with a one-day turnaround, per the executed contract. Monthly, the Payroll Office reports the amounts of the payments to Benefit Services. However, there is no evidence of concurrence on the reasonableness of these payments from Benefit Services.

b. Drug Administrative Fee Payments

   During the audit testing of a January 2018 CVS/Caremark administrative fee invoice sample, OAG identified a miscellaneous charge of “urgent LVL 1 / IRO fee” – quantity of two at a unit cost of $600, totaling $1,200 which was not included in the administrative fee price list from Benefit Services to the Payroll Office. Further review of the contract revealed that the unit cost for “urgent LVL 1 / IRO fee” should be $500. The overpayment to the vendor in this instance was $200.

According to Benefit Services, they maintain detail of the claims and conduct trend analysis on claims to assess reasonableness of the amounts billed to FCPS. Since the scope of this audit was confined to the processes and controls managed by the Payroll Office, OAG did not review the trend analysis performed by Benefit Services. As such, the issue noted below is classified as an observation and not a finding.

OAG recommends that Benefit Services and the Payroll Office establish a formal payment approval process. For payments with short turnaround time as required by the contract, the formal approval may need to be done after payment has been made. In the event that the payment does not appear reasonable, a reconciliation should be performed to determine whether adjustments are necessary in subsequent periods. Should additional resources be required to accomplish this recommendation, Benefits Services and the Payroll Office is encouraged to make the necessary budget proposals and discuss further with FCPS management.

OAG also recommends that Benefit Services and the Payroll Office increase collaboration to ensure the reasonableness of claims. Benefit Services should communicate the results of their claims payments analysis to the Payroll Office and confirm whether the payment amounts are in line with their expectations. This can be
done through periodic meetings, at least quarterly. Meeting minutes should be documented.

Additionally, Benefit Services should ensure they provide the Payroll Office with a complete listing of updated administrative fees detailed in the contract so that Payroll Office can review the reasonableness of the invoice amounts. Furthermore, Benefits Services and the Payroll Office should work together to determine the total amount of overpayment to the vendor for those invoices that were paid based on the incorrect administrative fees.
Observation 2 – Documentation of Operating Guidelines

The Payroll Office performs various reasonableness analyses to review the accuracy of the payroll amounts. These analyses include Microsoft Access queries, random checking by staff members, and logging the run time of the critical payroll system job. Payroll Office staff use these tools to quickly spot outliers and anomalies that could signal a loss of data integrity.

OAG’s interviews with the Payroll Office staff and review of the supporting documentation confirmed that analyses were performed by the payroll analysts. For instance, when the analysts reviewed the data generated by the “Total Earnings and Deductions Calculation Report” job, they compared it to basic metrics logged on the “Payroll Cycle Schedules”, a document that outlines the required tasks for each pay cycle.

OAG reviewed the “Total Earnings and Deductions Calculation Report” of one monthly pay period (1/1/2018 – 12/31/2018) and two biweekly pay periods (1/20/2018 – 2/2/2018; 8/4/2018 – 8/17/2018) with Payroll Administration. The explanation of the review process from the Payroll Analysts was consistent with that provided by the Payroll Administration Coordinator.

OAG noted that there are existing guidelines for the review in the “Payroll Cycle Schedules”. However, OAG recommends that the Payroll Office include the specific criteria as noted below to improve clarity:

- Total dollar of net earnings – e.g. summer months’ payroll amounts should be lower; negative net earnings should not occur
- Benefit deductions – Verify that the deduction amounts are consistent with the deduction cycles
- Tax deductions – Verify that the deduction amounts are reflected for each type and jurisdiction for which FCPS withholds. Amounts should be listed for “taxable” and “tax withheld”. 
Appendix

High Level End-to-End Payroll Process

Employee/Time Recording Process:
- Payroll Process Starts
  - Enter Current Payroll Period Hours Worked (incl. Overtime) and Leave in MyTime, if applicable
  - Review & Approve Time & Attendance Submission in MyTime as needed
  - Approved Time & Attendance Records copied from MyTime into LAWSON
  - Enter New or Changed Salaries, Benefit Deductions (e.g. Health & Dental Insurance, Retirement Plans) and Leave Types (e.g. Short-Term Disability, Workers' Compensation, Leave of Absence), if applicable
  - Generate Employee Payroll File
  - Perform LAWSON Data Completeness & Reasonableness Checks
  - Enter Manual Adjustments in LAWSON based on Approved Correction Memo / Personnel Action Register
  - Balance Total Wages and Deductions with Costing Reports
  - Pay Payroll Related Obligations (e.g. Taxes, Health and Retirement Benefits)
  - File Employer's Quarterly and Annual Tax Returns & Other Requirements
  - Payroll Process Stops