

Compensation Services

Internal Audit Report

March 10, 2023



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EXECUTIVE SUMMARY

Why We Did This Audit

Our objectives were to evaluate the efficiency, effectiveness and internal controls of operations within the department.

This audit was included in the 2021-2022 Annual Audit Plan.

Observations and Conclusion

Audit Results at a Glance			
Results and Observations	Risk / Impact Rating		
	Significant	Moderate	Minor
IA-Internal Audit or M-Management	-	IA - 2 M - 1	-
D-Deficiency or O-Opportunity	-	D - 2 O - 1	-

Our overall conclusion is that Compensation Services is functioning efficiently, effectively and with appropriate internal controls. We commend the department for managing numerous responsibilities with limited staff. We have three recommendations for improvement.

Results and Recommendations

Results:

As reported to us by management at the start of the audit, standard operating procedures are not fully documented.

The weekly report used by department management to monitor accuracy of pay changes contained prior pay rate errors and an omission. To address the report's known deficiencies, the department has developed a work-around procedure.

The volume of work, coupled with a small number of staff and manual calculations increases the risk of errors.

Recommendations:

Develop and document step-by-step standard operating procedures to provide staff guidance for their daily job responsibilities.

Research the reasons for the errors and omission on the weekly report and work with ITS to make appropriate corrections.

Allocate additional resources to reduce the volume of work per staff member and explore ways to automate processes.

This report has been discussed with management and they have prepared their response which follows.

DEFINITIONS:

Risk / Impact Ratings

Minor	Low risk with a financial impact of less than one percent and/or an isolated occurrence limited to local processes (low impact and low likelihood)
Moderate	Slight to moderate risk with a financial impact between one and five percent and/or a noticeable issue that may extend beyond local processes (low impact and high likelihood or high impact and low likelihood)
Significant	High risk with a financial impact greater than five percent and/or a significant issue that occurs in multiple processes and/ or noncompliance with Florida Statutes or School Board Policies (high impact and high likelihood)

We categorize risk/ impact as:

- *Minor*
- *Moderate*
- *Significant*

Observations Categories

Opportunity	A process that falls short of best practices or does not result in optimal productivity or efficient use of resources
Deficiency	A shortcoming in controls or processes that reduces the likelihood of achieving goals related to operations, reporting and compliance

We categorize our observations as opportunities or deficiencies.

Criteria for Observations Sourced to Management

- Internal audit was informed of the issue prior to starting detailed testing
- Management identified, evaluated, and communicated the issue to appropriate levels of the district
- Management has begun corrective action with clear, actionable plans and targeted completion dates

Audit result 1 is sourced to management.

Audit Result #1 is sourced to management.

BACKGROUND:

Compensation Services is part of the District’s Human Resources Division. The mission of the department is to provide timely and accurate information related to all wage and salary issues, unemployment compensation, job evaluations, job descriptions, wage and hour law, contract interpretation and other areas related to compensation as well as research and analysis to all OCPS employees, the Classroom Teachers Association (CTA) and Orange Education Support Professionals Association (OESPA) unions and outside entities. The department operates with a staff of three administrators and a classified employee (Director, Assistance Director, Administrator and a Personnel Specialist), although they were without one administrator for nine months of our audit period and the classified employee for two months of the audit period. They managed almost 20,000 pay change transactions from July 1, 2021 through November 17, 2022 as noted below:

The Compensation Services Department operates with a staff of three administrators and one classified employee.

Table 1: Number of District Employees Per Compensation Staff

Employee Job Type	Number of Pay Changes
Instructional	7,319
Classified	3,791
Administrators	486
Hourly	8,163
Food Service	51
Psychology	12
JROTC	10
Total	19,832

Source: SAP ZH286

The department managed almost 20,000 pay change transactions during our audit period.

OBJECTIVES, SCOPE AND METHODOLOGY:

Objectives

The objectives of this audit were to evaluate the efficiency, effectiveness and internal controls of operations within the department.

Scope

We evaluated transactions and activities of the department from July 1, 2021 through November 17, 2022.

Methodology

Our methodology consisted of:

- Reviewing job descriptions, salary schedules, relevant forms and other documentation on the department website.
- Reviewing applicable articles and appendixes of the CTA and OESPA contracts.
- Interviewing management, performing walkthroughs, and observing processes.
- Confirming with the ITS Department that access to the department's network files is limited to current department employees.
- Analyzing and testing 68 of 19,832 pay change transactions for instructional, classified, hourly and administrative employees for authorization and accuracy.
- Testing 33 of 629 unemployment compensation claims in the third-party claims administrator's system.
- Examining the contract and payments to the vendor that manages unemployment compensation.
- Examining quarterly invoices and payments to the State of Florida for unemployment compensation claims.
- Reviewing job evaluation studies for eight of 40 classified and ten of 90 administrative studies.
- Evaluating compliance with the State Teacher Salary Increase Allocation (TSIA) requirements.
- Analyzing relevant supporting documentation.

We conducted this audit in accordance with the *International Standards for the Professional Practice of Internal Auditing* of the Institute of Internal Auditors and included such procedures as deemed necessary to provide reasonable assurance regarding the audit objective. Internal Auditing is an independent, objective assurance and consulting activity designed to add value and improve an organization's operations. It helps an organization accomplish its objectives by bringing a

We evaluated transactions and activities during the period from July 1, 2021 through November 17, 2022.

We analyzed and tested 68 pay change transactions.

We conducted this audit in accordance with the International Standards for the Professional Practice of Internal Auditing.

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systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.

We are required to note any material deficiencies in accordance with Florida Statutes, School Board Policy and sound business practices. No material deficiencies were noted in this audit. We also offer suggestions to improve controls or operational efficiency and effectiveness.

COMMENDATION:

We commend the Compensation Services Department for managing a high volume of transactions in several areas of responsibility with a very small staff. Responsibilities performed by the department include:

- Performing and reviewing every pay calculation for new hires.
- Managing the unemployment compensation program.
- Providing support to the CTA and OESPA bargaining teams.
- Maintaining salary schedules.
- Performing job analyses and compensation studies.
- Updating job descriptions.
- Collaborating with the Budget and Finance department to ensure compliance with TSIA requirements.

RESULTS & RECOMMENDATIONS:

Overall Conclusion: Our overall conclusion is that Compensation Services is functioning efficiently and effectively and with appropriate internal controls and a low error rate. However, as noted in comment three below, the continuous increase in the volume of work without a corresponding increase in personnel creates additional risk of errors. Our results and recommendations for improvement are:

No material deficiencies were noted in this audit.

The department handles a high volume of work in several areas of responsibility with a very small staff.

The department functions efficiently and effectively with a low error rate.

The high volume of work for the small staff has created increased risk of errors.

1) Standard Operating Procedures are not fully documented *Moderate Risk and Opportunity*

Best Practice:

Written operating procedures are important because they provide staff with guidance for their day-to-day job responsibilities. They also assist with ensuring compliance with laws and regulations and continuity of operations during staff transition and/or business interruptions.

Audit Result:

During the entrance meeting, management reported standard operating procedures are not fully documented and they recognize this as an opportunity for improvement. We concur. Even though department personnel are experienced and knowledgeable, formal documenting operating procedures will enhance their efficiency and effectiveness and provide for consistency of practice when staff turnover occurs.

Recommendation:

Develop written standard operating procedures.

2) The weekly report used by staff to monitor the accuracy of pay changes contained prior pay rate errors and an omission *Moderate Risk and Deficiency*

Best Practice:

Data integrity - Management should have accurate and complete data and monitoring reports should be reliable.

Audit Result:

The Department uses the SAP ZH286 weekly audit report to monitor pay changes for classified employees. Management relies on this report to compare the prior pay rate with the new pay rate to ensure the changes were accurate.

We noticed that the previous pay rate on this report was not always accurate. Management stated they were aware that some of the prior

Management reported the lack of fully documented operating procedures as an opportunity for improvement.

We concur.

The weekly report used by staff to monitor accuracy of pay changes contained errors and an omission.

pay rates on the report did not reflect the preceding pay rate so they implemented a compensating control to verify prior rates.

Additionally, one of our sampled pay change transactions was not on the weekly audit report during April 2022 as it should have been.

Recommendation:

Coordinate with the Human Resources Senior Business Analyst and the ITS Department to research the reasons for the errors and omission and make appropriate corrections to the report.

3) The volume of work for the small number of staff, coupled with manual calculations increase the risk of errors. *Moderate Risk and Deficiency*

Best Practice:

Manage staff workload to ensure adequate time and attention to detail can be paid to the work. Limit manual calculations to reduce the likelihood of pay change errors.

Audit Result:

During our review of 68 pay calculations, we noted one error in pay and an inconsistent practice in the application of annual cost of living increases.

Pay Rate Error:

According to the hourly pay rate schedule approved on September 30, 2021, a newly hired employee was to earn \$10 per hour. That employee, hired on March 24, 2022, was entered in the system at \$9 per hour.

We noted emails at the time the employee was hired (March, 2022) between the Transportation, Human Resources and Budget Departments that indicated they were aware of the error. They identified a system date/timing issue as the reason. Although representatives of these three departments were aware of this error, none followed through to ensure the correct pay was entered.

We noted one pay change error and an inconsistent practice in the application of annual cost of living increases.

Two employees were paid an incorrect hourly rate.

When we brought the matter to Compensation Service's management attention in January 2023, they ran a report to verify whether any other employees were affected and identified one additional employee. These two employees were in this hourly position for one week before being assigned to classified positions. The pay rate has been corrected and retroactive wages paid to the two affected employees.

Application of Annual Cost of Living Increases:

We reviewed 20 classified employees pay changes. For one classified employee, the annual cost of living increase of \$.10 was added to the employee's current hourly rate before a 12% promotion increase calculation. For three other classified employees, the annual cost of living increase of \$.10 was added after a 12% promotion increase.

Management informed us their practice is to add the annual increase before a promotion increase calculation. However, sometimes the annual increase is added after the promotion increase:

- when pay increases are part of a mass update (files are uploaded for all employees at one time)
- when there is a high volume of movement between positions among the classified employee group

In this case, the difference of \$.01 per hour is small, but the impact would be greater when the annual cost of living increase is higher.

Analysis of Work Volume:

The pay rate error as well as the need to use inconsistent practices are due to the high work load on staff members as well as the department's management of the unemployment compensation process, which is not traditionally included in a compensation department's responsibilities.

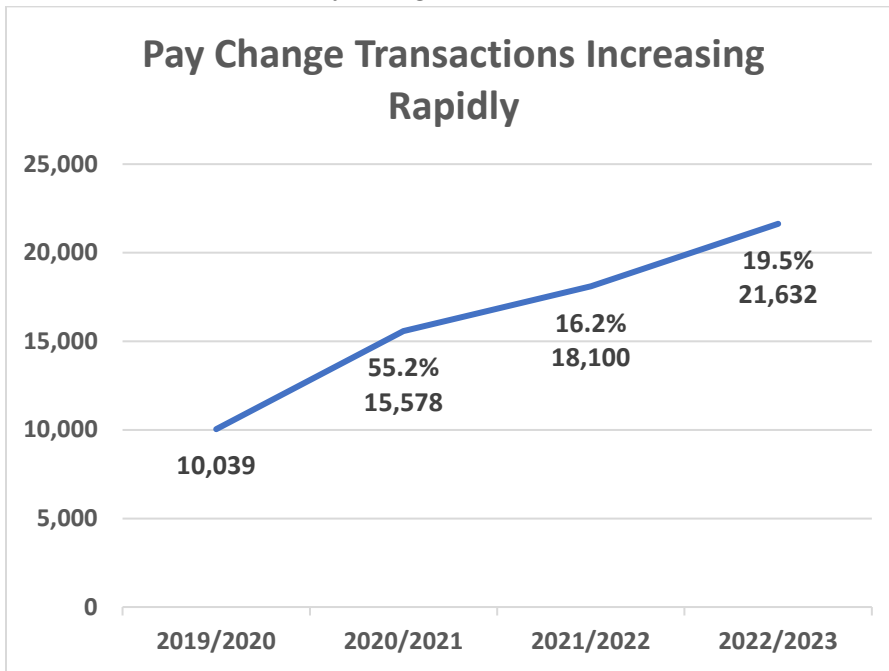
As shown in the chart and table below, the volume of pay calculations and number of district personnel has increased 39% since 2020 and almost doubled since 2018. Compensation staffing has remained the same, at four persons, throughout this period.

Retro pay adjustments have been processed.

We noted inconsistent calculation methodologies.

The volume of pay change transactions and number of personnel has increased while department staffing has remained the same.

Chart 1: Pay Changes Trends – FYs 2020-2023



Source: SAP ZH286

Table 2: Number of Pay Changes – Fiscal Years 2018-2023

Fiscal Year	Number of Pay Change Transactions
2017/2018	11,849
2018/2019	12,055
2019/2020 (pandemic)	10,039
2020/2021	15,578
2021/2022	18,100
2022/2023	21,632*

Source: SAP ZH286

*16,223 as of 3/30/2023 and projected at 1,803 per month for April through June

Comparison to Other Large Florida Districts:

Our research and inquiry of similar size Florida districts disclosed OCPS has more employees per Compensation Services staff member than other large Florida school districts. When fully staffed, OCPS would have 6,074 district employees for every Compensation Department staff member while the next closest, Broward, has 4,117 employees for each compensation staff member. However, in FY2023, the department was not fully staffed for much of the year. For that

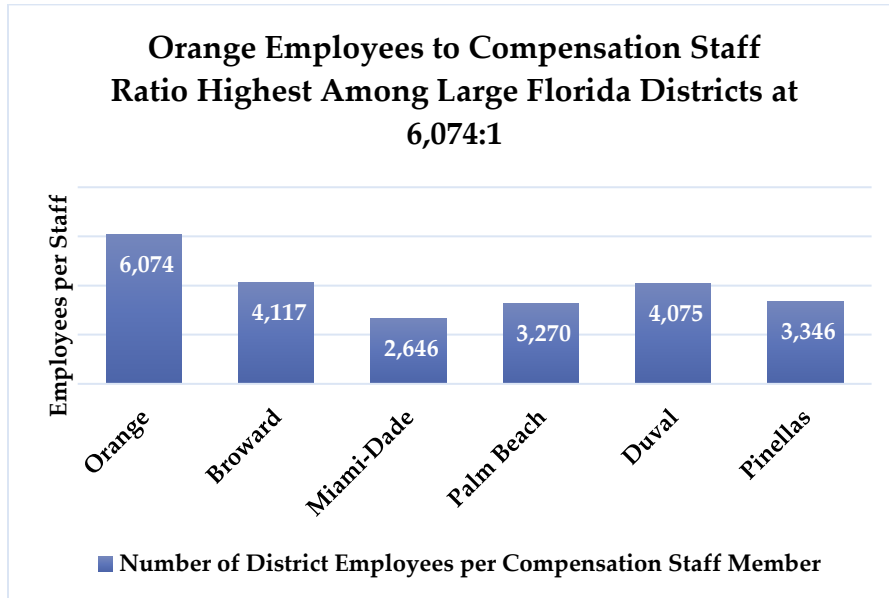
Volume of pay transactions is up 39% since 2020.

The volume of pay change transactions has almost doubled since 2018.

OCPS has a larger ratio of district employees to Compensation staff than other large Florida school districts surveyed.

period of time, the ratio of district employees to Compensation Department staff was 8,098:1. The following chart shows information for all surveyed districts.

Chart 2: Number of District Employees Per Compensation Staff



Source: Other District websites and emails

We also inquired about the responsibilities of other districts' compensation departments. All the surveyed departments perform essentially similar functions except for managing unemployment compensation. OCPS Compensation Department, along with Duval Public Schools, were the only surveyed departments that manage unemployment compensation. This process involves time-consuming data gathering and submitting documents to the state as well as, participating in hearings and appeals and reviewing and processing quarterly invoices.

Recommendation:

Evaluate current department responsibilities and submit a business case for additional personnel and/or automated resources to meet the work load demand and limit manual processes.

We wish to extend our sincere thanks to the Compensation Services Department for their cooperation and assistance with this audit.

OCPS has 6,074 district employees for every Compensation Department staff member while the next closest, Broward, has 4,117 employees for each compensation staff member.

Among surveyed districts, only OCPS and Duval have unemployment compensation managed in their compensation departments.



Department / School Name	Compensation Services
Administrator / Department Head	Theresa Harter Miles, Director
Cabinet Official / Area Superintendent	Dr. Bridget Williams

Audit Result / Recommendation	Management Response Acknowledgement/ Agreement of Condition	Responsible Person (Name & Title) And Target Completion Date	Management's Action Plan
Standard Operating Procedures are not fully documented	The Compensation Department does not have fully documented procedures or processes. Documentation has been created around a number of processes, however, these processes are not formatted to be consistent with each other. Since the department is now fully staffed, a focus will be on documenting processes in a consistent format.	Theresa Harter-Miles, Director November 2023 – May 2024	The Compensation Services department is now fully staffed, a focus will be on documenting processes in a consistent format.



<p>The weekly report used by staff to monitor the accuracy of pay changes contained prior pay rate errors and an omission</p>	<p>The Compensation Department runs SAP ZH286 weekly to audit pay changes for Classified employees. The report compares the previous pay rate with the new pay rate when an employee has a position change. The Personnel Specialist and Assistant Director noticed that the previous pay rate was incorrect on the report. The Sr. Business Analysts were not able to recreate the incorrect information on the report and it was escalated to IT for further review. In the meantime, Compensation has created a work around to continue to use the report to audit the information.</p>	<p>Compensation is working with the Senior Business Analyst to resolve this issue.</p> <p>Theresa Harter-Miles, Director</p> <p>05/2023</p>	<p>The Sr. Business Analysts are reviewing the report and should have a solution by the end of May 2023.</p>
<p>The volume of work for the small number of staff, coupled with manual calculations increase the risk of errors</p>	<p>When wage increases are approved and ratified, increases are loaded through an Excel spreadsheet that</p>	<p>Theresa Harter-Miles, Director</p>	<p>The Compensation department as of May 2023, is fully staffed. In fact, an additional position has been allocated for the 2023-2024 school year to assist with the volume of work. Recruiting for the new position and will hire after July 1, 2023.</p>



	<p>includes dated rows for each eligible employee. The practice that the Compensation Department utilizes has been the same since at least 2008 for these mass updates. If the District and OESPA do not reach a wage agreement by the beginning of a new school year, the mass upload process becomes more complex the longer it takes to reach an agreement. During this waiting period, there is a high volume of movement between positions for this group of employees. The practice has been to add the amount of the increase to each row of the employee's record; therefore, if an employee has multiple rows, each row would receive the increase amount. If a mass upload is not used, our practice has been to</p>		
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	<p>apply the increase first and the promotional increase or demotion second.</p> <p>In reviewing this result from the audit, it comes down to a rounding issue. We have traditionally used mathematical rounding and the resulting difference is \$.01 per hour. It is strictly rounding that has caused this difference.</p>		