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Scope of Examination
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• Investigate negative budget variance for payroll and benefit expenditures
• Fiscal years 2013, 2014, and 2015
• What factor(s) resulted in the payroll-related budget overage experienced in FY2015?
• Were District salary levels and wage rates uniformly applied in accordance with approved schedules?
• Recommendations for improvement
• FY2015 District-wide negative budget variance:

($9.3 million) – over-budgeted revenues in General Fund
($2.0 million) – charter school payments budget overage
($1.9 million) – food service operations budget overage
($0.5 million) – all other functions/objects, net
($5.2 million) – payroll/benefits budget overage
($18.9 million)
Summary of Findings
Findings – IT Related

• Ineffective IT governance and lack of basic IT controls
• Chronic understaffing of IT Department (Business Intelligence group)
• Need for detailed user role/access review
• Lack of standardized change management process
• Underutilization of HR and Payroll applications
• Overall, IT Department unable to meet demands/expectations of other District departments
Findings – Budgeting Process

• Incremental budget approach employed in FY2013 through FY2015 that used prior year budget as starting point
• Lack of basic budgetary control: budget to actual results by function/location/object not monitored throughout the fiscal year
• The budget as it is currently designed and operating is an ineffective management tool
Significant revisions made to original approved budget not made evident through quarterly reports provided to Board

- Over 2,600 separate adjustments to General Fund budget in FY2015
- Resulted in significant shifting of funding between location, function, and object
- For example, over $2.2 million reallocated to payroll/benefit expenditures from other objects in General Fund
• “School-Wide Accounts” revised budget contained net payroll/benefit expenditures of negative $2.8 million and actual expenditures of positive $2.0 million

• Result: $4.8 million negative budget variance for payroll/benefits from School-Wide Accounts

• Due to inclusion of over $10.6 million in estimated savings from unfilled positions in FY2015 (i.e. $10.6 million in negative expenditures)

• Budgeted negative expenditures for unfilled positions in FY2014: $4.4 million; FY2013: $7.1 million
• Payroll and benefits expenditures over (under) budget by fiscal year:
  - FY2015 – $5,231,774
  - FY2014 – ($3,454,309)
  - FY2013 – ($6,961,147)
• Other budget-related observations
  - Unbudgeted outlay of $462,000 in FY2015 due to IRS penalty for late filing of W2s
  - Penalty was recorded by the District as an instruction-related expenditure for purchased services
  - Budgeted payments to charter schools have decreased since FY2013 while actual payments have increased year-over-year
Overarching issue:

- Schools and other locations are not being held accountable for their responsibilities related to HR and payroll
Schools and other locations are chronically late in both keying and approving of time and attendance batches.

Result: unscheduled payroll runs occurring every week of the year, and payroll department approving significant number of time and attendance batches rather than appropriate school/department supervisor.
Findings – HR and Payroll Issues

• Scheduled vs. unscheduled payroll runs:

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>Scheduled Runs</th>
<th>Non-Scheduled Runs</th>
<th>Total Runs</th>
</tr>
</thead>
<tbody>
<tr>
<td>2013</td>
<td>26</td>
<td>65</td>
<td>91</td>
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<td>2014</td>
<td>26</td>
<td>59</td>
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</tr>
<tr>
<td>2015</td>
<td>27</td>
<td>72</td>
<td>99</td>
</tr>
</tbody>
</table>

• Unapproved time:
  - 239 unapproved batches in FY2015, containing over 42,000 hours
Overtime is regularly not being approved in advance in accordance with District policy.

Increase in overtime over three year period:
- FY2013 – $948k vs. $605k budgeted
- FY2014 – $1.3 million vs. $879k budgeted
- FY2015 – $1.7 million vs. $895k budgeted

From FY2013 through FY2015, over $630 thousand of overtime was recorded as regular salary expense in the general ledger.
Findings – HR and Payroll Issues

• Employee terminations executed by schools or other locations are consistently entered late
• Result: overpayments to terminated employees
Findings – HR and Payroll Issues

• Our sample of 45 terminated employees resulted in identification of over $98 thousand in overpayments during the three years
• Actual total amount during this timeframe could be higher
• District is not utilizing a consistent approach for the identification, tracking and recouping of overpayments to terminated employees
Recommendations
Recommendations – IT

- Develop IT strategic plan involving key stakeholders District-wide
- Develop hiring plan to appropriately staff the IT Department
- Implement standardized change management and project implementation processes
- Conduct a comprehensive review of all system users for appropriate role and access
Recommendations – Budgeting

- Move away from incremental budgeting approach that uses prior year budget amount as starting point.
- Reconsider use of unassigned locations as budgeting tool to avoid significant negative budgeted expenditures that are not realizable.
- Provide training and make schools and departments within District responsible and accountable for their budgets.
- Provide detailed reporting of budget to actual results, including budget amendments, regularly to the Board of Trustees.
Recommendations – Payroll/HR

• Clearly communicate responsibilities and expectations of schools and departments regarding time and attendance entry/approval, overtime, and timely processing of HR changes, including employee terminations

• Hold schools and departments accountable for these responsibilities and develop standard approach for handling instances of nonadherence to policy
Develop standardized process for the handling of overpayments to terminated employees

- Examine population of all payments to employees beyond termination date and identify all instances of overpayment
- Develop process for collection of overpayments
- Develop a process for tracking the status of all overpayments and include as part of regular reporting for management and Board meetings