



To: Ms. Mary Kadera, School Board Chair
Ms. Miranda Turner, School Board Member
School Board Members
Dr. Francisco Durán, Superintendent
Cc: Members of the Cabinet
Mr. Brian Stockton, Chief of Staff
Mr. Andy Hawkins, Business ???
From: Ms. Alice Blount-Fenney, Director, Internal Audit
Re: InformaOvertime Audit Report
Date: March 7, 2025

Background

At the September 2024 Board Meeting, an audit of Overtime was approved and included on the Annual Audit Plan for fiscal year 2024-2025. Overtime is applicable for non-exempt employees that work in excess of a regular forty-hour work week.

The Payroll Department was recently transferred from Human Resources to Finance and Management Services. The department reports to the Assistant Superintendent, Finance and Management Services who in turn reports to the Chief Operating Officer. The department has been subject to high levels of employee turnover.

Objectives

The objectives of this audit were to assess internal controls over:

- Review of Payroll Department Standard Operating Procedures for overtime
- Overtime justification and approval processes
- Maintenance of overtime records
- Compliance with the Fair Labor Standards Act for employee eligibility for overtime and employee compensation record keeping
- Budgeting processes for overtime
- Equity in the selection process for employees for overtime assignments
- Compliance with APS Policy G-3.2.2.30, Overtime Compensation and provisions stated in the Fair Labor Standards Act

Scope and Audit Methodology

The scope of the Overtime Audit included a review of overtime transactions for the fiscal periods of 2022-2024. It also encompassed an assessment of internal controls over selected business processes including employee eligibility for overtime, justification for overtime, proper approvals prior to the commitment of overtime, and equity in the processes of providing overtime opportunities for departmental employees. Interviews were held with key personnel and independent tests conducted for sampled overtime transactions.

I would like to thank those employees that assisted with providing information and documentation for the audit.

Best regards,

Alice Blount-Fenney

Director, Internal Audit

Summary Audit Findings

There is a loss of accountability for overtime records.

- APS uses a manual overtime “Time Worked Form” to record time worked, justification and approvals.
- It appears that the department has not maintained adequate compensation records including overtime documentation.
- The Payroll Department has responsibility for maintaining compensation records.

It has not been a Payroll Department business practice to maintain documented SOP’s covering key payroll business processes including overtime.

- Although, it has not been business practice of Payroll Department management to require and maintain SOP’s, Payroll employees began the process in February 2025 of drafting some SOP’s.

The review of Overtime Reports confirmed that only non-exempt employees received overtime compensation.

- The Overtime Report for the period of 2022-2024 confirmed that only non-exempt employees received overtime compensation, in compliance with the Fair Labor Standards Act.

There were some overtime overpayments, creating the need for adjustments.

- A review of an Overtime Report provided by Payroll for the period of January through October 2024 confirmed a total of 27 overpayment transactions totaling \$12,230.53.
- For the overtime overpayments, employees were contacted and reimbursements made to APS.
- A review of Overtime Reports for the period of July 15, 2024-February 28, 2025, confirmed no overtime overpayments during this period.

It was confirmed that in some cases, department and program managers were not able to easily identify the sources of expenses that contributed to the figures presented by the Budget Office, for their respective departments/programs.

- Each department or program manager is responsible for maintaining their budget including compensation-related matters.
- Several managers were not able to easily identify the reasons for the amounts reflected on their budgets for overtime.

There are no documented uniform guidelines on how overtime is to be assigned.

- It appears that overtime assignments are at the discretion of each department or program manager or employee volunteers for the opportunity to work overtime.

Detailed Audit Findings

Compliance-Compensation Records: Fair Labor Standards Act

There is a loss of accountability for overtime records.

- APS uses a manual overtime “Time Worked Form” to record time worked, justification and approvals.
- For the audit, a sample of overtime transactions for the period of 2022-2024 was selected and a request sent to the Payroll Department for supporting documentation. The sample was for 137 transactions in the amount of \$2,517,108.48.
- Although the Payroll Department employee searched for several weeks in November and December 2024 to locate the supporting documentation, in January 2025 the employee informed Internal Audit that due to the multiple gaps in leadership for the department, the documents were not maintained and could not be located. The Payroll Department employee also reached out to multiple timekeepers for overtime documentation with no success.
- It appears that the department has not consistently maintained adequate compensation records, including overtime.
- It was confirmed that for several years, there was a lack of management oversight for the department with a revolving flow of interim supervisors or no one leading the department, as illustrated by the following Table.
- As of February 2025, the Interim Supervisor has reinstated the practice of maintaining a shared folder with overtime records.

Payroll Department Management Oversight Gaps

Time Period	Management Oversight
November 2019-February 2020	None
February 2020-June 2021	Employee C resigned
June 2021-February 2022	None
February 2022-February 2023	Employee B left and took another position within APS
February 2023-June 2023	None
June 2023-September 2023	Employee G resigned
September 2023-February 2024	None
February 2024-August 2024	None
August 7-15, 2024	Employee F.
August 16, 2024-Present	Employee S. Interim Supervisor

- The lack of adequate management coupled with high staff turnover rates presents various risks for APS, including loss of management controls, potential financial losses due to

errors, and regulatory risks that can result in fines and penalties as well as the risk of reputational damage.

Recommendations

- It is recommended that the Assistant Superintendent of Finance and Management Services revisit the current department structure and management needs and restructure as appropriate. The Department requires more stability with supervision and accountability. The years of inadequate management oversight need to be analyzed and prevented from going forward.
- Better processes need to be implemented to manage compensation related documentation.
- Options for co-sourcing payroll functions are also recommended.
- The Assistant Superintendent, Finance and Management Services, along with support from the Assistant Superintendent, Human Resources need to work collaboratively to ensure that any future recruitment efforts identify candidates with essential technical skills needed to meet the needs of the Payroll Department.
- It is recognized that the current employees are to be commended for their efforts considering the lack of management, support, and supervision.
- With the Board and the Chief of Staff's approval, I am recommending a full audit of Payroll be scheduled following the completion of the Overtime Audit.

Management Comments

As reported by the auditor, there has been a significant amount of turnover in this department, and it has suffered from the lack of poor leadership for many years. The person who has stepped in to keep this department functioning has been Mr. Joe Barron, Human Resources Special Projects Coordinator. Without his leadership and efforts, the Payroll Department and APS employees would have suffered significant issues. While the auditor's assertions are correct, I want to recognize the efforts of Mr. Barron which continue to this day.

When this department was transferred to the Finance & Management Services team on July 1, 2024, from the Human Resources Department, the Assistant Superintendent of Finance & Management Services and the Chief Operating Officer realized that options needed to be explored to stabilize the long-term future of this department. In an effort to provide appropriate support to APS we contacted ADP (an independent vendor specializing in payroll services) to determine the cost of outsourcing the payroll function. After many meetings/discussions with ADP, we believed that they were a viable option. There were areas of concern:

- 1. ADP didn't have any clients as large as APS with the complexity of its payroll function*
- 2. The cost increase for ADPs services would require the addition of approximately \$1.0 million and retaining 2 to 3 of the current Payroll Department staff.*

Another area of concern at the time was the School Board's FY2026 Budget Forecast of a \$40+ million budget deficit. With all of this information we (COO and the Assistant Superintendent of Finance & Management Services) met as a team with the Assistant Superintendent of Information Services and Mr. Barron to determine the best course of action going forward. Based on this discussion we determined that we would keep the payroll functions within APS since:

- 1. The transition to ADP would require 8 to 10 months and significant training to change the current APS business processes.*

2. *The new ERP system (being developed at significant expense to APS) has extensive payroll upgrades from the current processes.*

Our decision was to continue with our current processes and give the new ERP system an opportunity to be successful while also advertising and hiring a quality Payroll Supervisor for the long-term future. Currently Ms. Tracey Strickland, Payroll Administrator, has been the Interim Payroll Supervisor, until qualified candidates can be identified, interviewed, and hired. During the month of March 2025, the Finance and Management Services team along with Mr. Barron will be interviewing 7 identified candidates for this position.

Responsible Persons

- Mr. Andy Hawkins, Assistant Superintendent, Finance and Management Services

Support Persons

- Mr. Corey Dotson, Assistant Superintendent, Human Resources
- Dr. John Mayo, Chief Operating Officer

Management Responses Due: March 24, 2025

Discussed with Management: March 3, 2025

It has not been a Payroll Department business practice to maintain documented SOP's covering key payroll business processes including overtime.

- Although, it has not been business practice of Payroll Department management to require and maintain SOP's, Payroll employees began the process in February 2025 of drafting some SOP's.
- More specifically, during the audit, some draft business processes were provided by Payroll Department employees covering the steps to review overtime hours and guidance on how to handle overtime overpayments.

Recommendations

- It is recommended that the process of documenting SOPs for major Payroll Department business processes continue. Special emphasis should be placed on documenting business processes to reflect compliance steps for payroll related federal and local regulations.
- Please refer to Appendix II for a Model Index of Payroll Policies and Procedures. This business process will be revisited once the Payroll Audit is scheduled.

Management Comments

- *Agree with audit recommendations.*

Responsible Persons

- Mr. Andy Hawkins, Assistant Superintendent Finance and Management Services

- Mr. Joe Barron, Human Resources Special Projects Coordinator
- Ms. Tracey Strickland, Interim Payroll Supervisor

Support Persons

- Payroll Department Staff

Management Responses Due: March 24, 2025

Discussed with Management: March 3, 2025

There was some overtime overpayments made during fiscal years 2022-2024, creating the need for adjustments.

- The Overtime overpayments report that was provided by the Payroll Department confirmed that for the period of fiscal years 2022-2024 was \$12,230.53.
- A review of overtime reports for the period of July 15, 2024-February 28, 2025, confirmed that there were no overtime overpayments during this time.
- The department has recently documented business processes relating to overpayments for overtime, including how Payroll should notify the employee and take appropriate steps to remedy the error, in a manner that does not create financial hardship for the affected employee.

Recommendations

- It is recommended that the Payroll Department staff continue to exercise due diligence in the review of the accuracy of overtime payments.
- It is also recommended that the Payroll Department staff contact IS and determine if there are options for generating error reports to flag potential over-payment errors.

Management Comments

- *Agree with audit recommendations.*

Responsible Persons

- Mr. Joe Barron, Human Resources Special Projects Coordinator
- Ms. Tracey Strickland, Interim Payroll Supervisor

Management Responses Due: March 24, 2025

Discussed with Management: March 3, 2025

The review of Overtime Reports confirmed that only non-exempt employees received overtime compensation.

- The overtime report for the period of 2022-2024 confirmed that only non-exempt employees received overtime compensation, in compliance with the Fair Labor Standards Act.

Recommendations

- I am recommending that HR continue with the business practice of properly coding employees according to their classification as exempt or non-exempt.

Management Comments

- *Not warranted.*

Responsible Persons

- Mr. Corey Dotson, Assistant Superintendent, Human Resources

It was confirmed that In some cases, department and program managers were not able to easily identify the sources of expenses that contributed to the figures presented by the Budget Office, for their respective departments/programs.

- There are business budgeting processes provided to members of the APS community by the Budget Office.
- Each department or program manager is responsible for maintaining their budget including compensation-related matters.
- Requests were made during the audit with department and program managers regarding the over-budget figures reported for overtime. Please refer to Appendix I.
- Several managers were not able to easily identify the reasons for the amounts reflected for overtime.
- In the fiscal year 2024, Facilities and Operations had the largest overtime budget, which is common for the services and work performed by this department. Refer to Appendix I at the end of this report.
- A Budget Book is prepared and distributed each fiscal year, and budgeting processes are published on the Budget Office's web page.
- There are documented business protocols for budgeting matters relating to compensation, as well as transfer protocols.

Recommendations

- Department and program managers are encouraged to meet with the Director of the Budget Office and review the expenses pertaining to overtime with the goal of confirming which transactions contributed to the figures on record with the Budget Office.

Management Comments

- *I will continue to work with program managers and department heads throughout the year to discuss budget matters and respond to any questions they may have.*

Responsible Persons

- Tameka Lovett-Miller, Director Budget Office

Management Responses Due:

Discussed with Management: March 12, 2025

There are no documented uniform guidelines on how overtime is to be assigned.

- It appears that overtime assignments are at the discretion of each department or program manager.
- The Assistant Superintendent, Facilities and Operations, confirmed that overtime opportunities for her division are offered on a voluntary basis. However, there were patterns that were noted in fiscal 2022-2024 in which the same employees frequently worked overtime.
- Although there is Policy G-3.2.2.30 regarding eligibility for overtime, it does not address how overtime is to be assigned.

Recommendations

- Consider creating a policy or PIP covering protocols for how to assign overtime opportunities in an equitable manner for eligible employees.

Management Comments

- *A new policy may not be necessary for this. Protocols could be added by adding a new section to the existing PIP, G-3.2.2.20 PIP-1 Overtime Compensation.*

Responsible Persons

- Mr. Steven Marku, Director Policy, and Legislative Affairs

Management Responses Due: March 26, 2025

Discussed with Management: March 5, 2025

Appendix I

Overtime Budget FY 2024

Source: APS Budget Office

Row Labels	Sum of Funds Available (USD): Budget	Sum of Funds Available (USD): Actual
School Board	(\$3,188.38)	\$0.00
Schools	\$210,984.78	\$399,971.66
Superintendent's Office	\$613.33	\$0.00
Chief of Staff Office	\$0.00	\$475.79
Chief Academic Office	\$10,481.78	\$19,927.09
Chief Diversity, Equity, Inclusion and School Support Office	\$1,015.66	\$80,822.70
Chief of School Support Office	\$136,047.78	\$153,732.02
Chief Operating Office	\$0.00	\$4,954.47
Facilities and Operations	\$1,546,733.63	\$1,919,715.15
Finance and Management Services	\$1,443.95	\$72,646.57
Human Resources	\$9,869.98	\$17,869.35
Community Activities Fund	\$17,385.00	\$155,003.02
Food and Nutrition Services Fund	\$206,000.00	\$296,059.93
Capital Projects Fund	\$75,685.08	\$75,685.08
Grants and Restricted Programs Fund	\$13.00	\$52.00
Grand Total	\$2,213,085.59	\$3,196,914.83

Appendix II

Model Policies and Procedures

- Payroll Regulatory Compliance Business Processes
- Running Payroll
- Reconciliation Processes, including Withholding Accounts
- Payroll Records: Retention and Destruction Periods
- Payroll Tax Processes
- Changes to the Payroll System
- Controls for master payroll rate table, including reclassifications