



REGIONAL OFFICE OF EDUCATION

INTERNAL AUDIT REPORT

Payroll and Investment Statement Review

March 28, 2019

MCHENRY COUNTY AUDITOR'S OFFICE

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

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Finance and Audit Committee Members,

PAYROLL DOCUMENTATION AUDIT

BACKGROUND:

Auditor's Office performed an internal audit over the Regional Office of Education (ROE) payroll records and expense reimbursements for FY18. A sample of transactions of FY18 expense reimbursements and payroll records were reviewed. Payroll records were further compared to corresponding employee door swipes of entrances of the Administration Building for FY18. This is one of several internal control procedures that were planned to be performed by the Internal Audit as part of the Annual Audit plan.

FINDING:

During the course of the audit, **one ROE employee** was noted as minimally working (due to a medical leave) from **June 22, 2018 through August 17, 2018** and limited sick time was documented in ADP during the same period. During this eight week break of attendance, several items were noted below by the Auditor's Office from our review of the position, payroll documents, expense reimbursements and discussions.

1. **Access cards to entrances (door swipes)** from **June 22, 2018 through August 17, 2018** had gaps (break in swipes recorded) at the Administration building. This indicates that the employee was minimally coming into the Administration building during the eight weeks. Only four days had door swipes during that period. During a discussion with the ROE Superintendent, it was learned that this employee had surgery during that time. There were significant swipes (multiple times a day) during most of FY18 for this employee other than the gap noted. Auditor's Office has observed that many employees don't consistently swipe at the door to gain access. On occasion, employees follow another employee in or out of the building. Additionally, employees can enter in the public entrance in the Administration building as well. However, patterns can be noted from the door access swipes, which were used in the internal audit.
2. **Mileage expense reimbursements** (related to employee ref. #1) were not filed for June 22 to August 6th, which shows employee was not working in a different location. Mileage reimbursements were consistently filed monthly for the rest of FY18. It was stated by the ROE Superintendent and employee this was due to a medical leave.
3. The Personnel Policy Manual outlines the employee must record **FMLA** papers with Human Resources for this type of medical leave. FMLA was not applied for in this case.
4. **Sick time** must be used during medical leaves. Only four days of sick time was used July 24th – 27th and recorded in ADP. The rest of the eight weeks (other than the four sick days) were recorded as time worked due to being an 11-month employee under a grant budget document.
5. The position's payroll is **funded by a grant**. The grant budget document submitted by the County states, "This is an 11 month position." However, the County Board resolution did not mention this position as 11-months. Also, the employee was recorded as a 12-month employee on County records (payroll advice submission form). Payroll records did not reflect

the position as noted in the grant budget submitted to the federal grant agency.

6. The County's **vacation or sick time accrual rates in ADP payroll** were not adjusted for the 11-months position recorded in grant documents. The grant employee was accruing vacation and sick time the same as a 12-month employee. The ROE Superintendent stated this employee takes the 12th month off and typically takes two weeks in the month of December and two weeks in the summer in prior years. This employee received an extra four weeks yearly more than any other County full time salary employee (based on length of employment). The extra four weeks are documented separate of Administration payroll records. Regular vacation and sick was accrued on the County's ADP system, but the 21 days were only documented and kept by the employee.
7. The position's work requires presentations at nights and in the early morning, so the employee does not work a normal 8am – 4:30pm schedule daily. Thus, **comp time** is being banked (accrued) by this employee to take off at other times of the year in addition to the 21 days (one month of salary). The County records show this position as salaried and should not be recording comp time per the Personnel Policy Manual, which states in section 2.4, "Exempt employees shall receive no cash compensation or compensatory time off in lieu of cash compensation for hours worked in excess of forty per workweek". The comp time banked is not reviewed regularly by an independent reviewer or department head and not recorded on the County's ADP payroll records or payroll advice sheets. This was discussed with the ROE Superintendent who was unaware that salaried employees were not allowed to accrue comp time and carry them into future pay periods according to our Personnel Policy Manual.
8. No **employee contract or documentation** was developed or filed with the HR department to encompass this unique employee position and benefits.
9. According to the ROE Superintendent, the employee **tracks time** using dry erase board to record hours worked and vacations days and to ensure the ROE Superintendent is aware of the employee's upcoming schedule. Also, comp time, vacation, sick, extra 21 days were recorded on a spreadsheet by the employee. The spreadsheet did not have any documented independent review noted and was kept for the employee tracking only. It is recommended for all vacation and sick be tracked in the County's payroll system instead where regular review by ROE Superintendent is documented and maintained by the County.
10. Based on discussions, the employee had **permission** to work an 11-month schedule with comp time due to grant budget document and verbal discussions at beginning of employment with the ROE Superintendent.

Additionally, there was a day in January 2018 when the employee took a sick day, but also had a mileage reimbursement recorded for that same day. It was stated that the employee possibly attended an event on a day they were sick. Sick time should have been updated in ADP to reflect the partial day worked or mileage reimbursement adjusted as appropriate.

RISK RATING: MEDIUM.

RECOMMENDATION:

It is recommended for the County's record time system to properly reflect days worked and sick days taken. A review should be performed by ROE and payroll function. At completion, the results should be reported to the HR/Administrative committee for determination if vacation and sick accrual rates should be adjusted for current and prior years for this employee. Medical leave should be on record at the County as well.

Since the employee is "salaried," comp time should not be used or carried forward on or off County payroll records for any County salaried employee. If comp time is to be accrued, the employee should become an hourly employee and comp time reported in the County's ADP system. The ROE Superintendent should accurately track all sick and vacation days for all the employees in the ROE Office, as prescribed by the payroll advice sheets supplied to HR and payroll reports submitted to Administration.

A separate employment contract should not be set up for this grant employee because these instances are typically reserved for appointed department heads. It is essential for the County to have consistency for employees on benefits received. Payroll advice should be updated to reflect the hours intended for the year for time worked and benefits should reflect the total hours based on the Personnel Policy Manual.

It is recommended for all employee reimbursements to be reviewed in detail and compared against payroll records by the ROE Superintendent or designated approver to ensure accuracy of reimbursements submitted.

MANAGEMENT RESPONSE by Regional Office of Education Superintendent:

The Regional Office with County Payroll Administration is creating new coding for the County's record time system, ADP, to maintain accurate records for an 11 month contract employee. The Regional Office of Education is collaborating with the Human Resources Department to determine the correct accrual of vacation and sick days for the 11 month employee. Policies designed for an 11 month employee will be presented to the HR/Administrative committees. Once HR/Administration approve the policies for the 11 month employee, a new payroll advice will be created for the employee.

The extended absence period of this employee was an anomaly unique to an 11 month employee. Human Resources and the Regional Office are working to create a consistent policy for an 11 month employee for future. Legally the employee should have been referred to FMLA. However, HR expressed to the employee that since the surgery was being done in the non-working 12th month, and the employee was planning on doing work at home, IMRF was not necessary. In future instances, ALL medical concerns will be reported to HR for referral to TASC to cover the County from liabilities.

As an exempt employee, the employee in question is not entitled to compensation time but will work on a flex-time schedule documented in ADP and by the Regional Superintendent.

Estimated Completion Date: June 1, 2019

PLEDGE AGREEMENT CONTRACT

BACKGROUND:

The ROE Superintendent discussed with the Auditor's Office bank statements that were kept by the bookkeeper position. A review of ROE financial statements were completed to identify where the bank statements were recorded. The account was documented in Note 2A (shown below) as collateral pledge account in ROE financial statements for FY17. The agreement was setup to guard against the risk of bank failure and to ensure deposits are returned beyond the FDIC maximum off \$250,000.

The Auditor's Office wants to mention the ROE Superintendent was proactive in understanding the account further and reaching out as appropriate.

Note 2A – From ROE Financial Statements FY17

McHENRY COUNTY
REGIONAL OFFICE OF EDUCATION #44
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 2 – DEPOSITS AND INVESTMENTS (Continued)

A. DEPOSITS

At June 30, 2017, the carrying amount of the McHenry County Regional Office of Education #44's government-wide and agency deposits were \$464,090 and \$4,244, respectively. The government-wide and agency bank balances were \$471,800 and \$42,194, respectively. Of the total bank balances as of June 30, 2017, \$250,000 was secured by federal depository insurance, \$3,603 was invested in Illinois Funds Money Market Fund and \$260,391 was collateralized by securities pledged by the McHenry County Regional Office of Education #44's financial institution in the name of the Regional Office.

FINDING:

The following was noted related to the Collateral Pledge account:

- No county or state funds were used to create the account per the bank.
- The securities are currently owned by BMO/Harris bank. The statements received now reflects ownership under BMO/Harris and invested by Bank of America/ Merrill Lunch. It is recommended for agreements to match the current bank's legal name.
- The current account balance on 2/5/2019 was \$537,672.10, which appropriately collateralizes the ROE bank accounts.
- The collateral pledge agreement was signed in 2005 with Harris Bank by Donald Englert, who served from 1994-2005 as ROE Superintendent. The agreement was noted as over 14 years old and signed by an ROE Superintendent who hasn't worked for the County in 14 years. It is a recommended best practice to review and update contracts regularly to ensure its applicability and the proper employees are signed on the contract.

The Auditor's Office reviewed a Transaction Summary report from 05/01/2012 – 02/05/2019 to ensure oversight and review of the investment account owned by BMO/Harris. Additionally, the Auditor's Office had discussions with the state auditors, Kemper CPA Group LLP, which confirmed the nature of the account.

RISK RATING: LOW.

RECOMMENDATION:

During the audit it was recommended to have a new pledge agreement drawn up to reflect the current ROE superintendent and the updated bank name that maintains the pledge agreement. Additionally, it was recommended to have the current and new agreement reviewed by the State's Attorney Office to ensure the County is legal protected. The Auditor's Office received documentation to support the States Attorney Office review of the prior agreement during the audit. The ROE office is in the process of updating a new contract for the collateral pledge agreement. It is recommended to review all contracts yearly and update accordingly. Also, it recommended to ensure account documents and contracts are properly filed and maintained with account statements. Files should be accessible and clearly labeled in the future to eliminate confusion during staff transitions and internal and external audits.

*MANAGEMENT RESPONSE by Regional Office of Education Superintendent:
The new contract has been sent to the State Attorney's office for a final review before sending to BMO Harris and Bank of America for their execution. The Regional Office has segregated contracts and monthly statements for the Collateral Pledge Account in clearly labeled binders. The Regional Office has provided the state auditors, Kemper CPA Group LLP with past statements.*

Estimated Completion Date: June 1, 2019

Sincerely,

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Don Anderson, CPA, CFE/ Chief Deputy Internal Auditor
Clare Howatt / Internal Audit Associate