



**U.S. DEPARTMENT OF EDUCATION
OFFICE OF INSPECTOR GENERAL
75 Park Place, 12th Floor
New York, New York 10007**



June 2, 2004

**Control Number
ED-OIG/A02-D0023**

Honorable César Rey-Hernández
Secretary of Education
Puerto Rico Department of Education
Calle Teniente González, Esq. Calle Calaf – 12th Floor
Urb. Tres Monjitas
Hato Rey, Puerto Rico 00919

Dear Secretary Rey-Hernández:

This is our Final Audit Report entitled *Puerto Rico Department of Education's (PRDE) Salaries for the Period July 1, 1999 to June 30, 2003*. The objective of our audit was to determine the cause and extent of improper salary charges to U.S. Department of Education (ED) programs. Our review disclosed that the primary cause of improper salary charges was PRDE's failure to monitor payroll transactions processed by a contractor, Rock Solid Technologies (RST). We also determined PRDE's salary reconciliations of the Title I account for fiscal years 2002 and 2003 were erroneous. In addition, PRDE and the Puerto Rico Treasury Department (Hacienda), the government agency that processes PRDE's payroll charges and paychecks, failed to provide adequate records necessary to initiate the analysis of the Title I and other ED accounts. As a result of this audit scope limitation, we were unable to determine the extent of the improper salary charges and the level of unsupported costs.

We provided a draft of this audit report to PRDE. In its response, dated April 22, 2004, PRDE stated it was working in cooperation with ED to institute new procedures that would ensure that all salary charges to Federal programs are accurate and fully comply with Federal laws and regulations. PRDE also stated it had established a Payroll Team that was working with ED to update PRDE's payroll system. PRDE suggested that the issue of past reconciliations and independent evaluation be discussed in the context of the Cooperative Audit Resolution and Oversight Initiative (CAROI), a collaborative method to provide alternative and creative approaches to resolve audit findings, as well as their underlying causes. Lastly, PRDE reported that requested transaction files were available for the OIG to review and that Hacienda provided its payroll transactions to the OIG. However, neither PRDE nor Hacienda provided the records necessary to initiate the analysis of the Title I and other ED accounts. A Hacienda official reported that he did not recall, but may have submitted the data to PRDE to provide to the OIG. PRDE's response did not cause us to change our finding and recommendations. We have summarized PRDE's comments after the finding and have included PRDE's entire response as an Attachment.

BACKGROUND

PRDE annually employs approximately 70,000 people. PRDE contracted with RST to implement a human resources operating system to manage the PRDE employee payroll accounts. RST is a software solutions company with offices in Austin, Texas and San Juan, Puerto Rico.

PRDE's December 31, 2001 financial records showed a deficit of \$18,108,105 in the Title I account for fiscal year 2001. Because of this purported deficit, PRDE conducted a reconciliation of the Title I payroll account for fiscal year 2002 and provided the results to the auditors conducting the 2002 Single Audit in December 2002. The results were incorporated into the report as Finding 02-51. The Finding stated that, during PRDE's fiscal year 2002 that ended June 30, 2002, PRDE charged to the Title I program salaries totaling \$91,584,387 from employees who provided personal services for state activities, other governmental agencies of Puerto Rico, and other Federal programs managed by PRDE. Of that amount, \$84,141,309 pertained to state activities. A Senior Partner of the audit firm told the ED-OIG auditors that the Single Audit report did not include the cause of the finding because the condition was identified just days before the report was to be issued.

A similar condition was reported in Finding 02-14. This Finding stated that employees who should have been paid with state funds during the year ended June 30, 2002, were paid \$384,187 with ED funds from the Title I Grants to Local Education Agencies, Child Nutrition Cluster, Goals 2000, Comprehensive School Reform Demonstration, and Class Size Reduction programs.

In August 2002, ED placed Special Conditions on PRDE's grants because of problems with PRDE's fiscal and program accountability. Additionally, in August 2003, PRDE's Internal Audit Office reported a payroll fraud case that involved the illegal appropriation of \$104,161 in state funds. According to the Internal Audit report, this occurred due to a lack of supervision and controls over processing payroll payment transactions. In September 2003, ED again placed Special Conditions on PRDE's grants due, in part, to the unallowable payment of employees' salaries using Title I and other Federal program accounts, and formalized its collaborative efforts with PRDE through the CAROI process.

AUDIT RESULTS

Finding: PRDE's lack of controls over payroll processing led to an undeterminable amount of improper salary charges

PRDE did not properly monitor payroll transactions processed by RST. In addition, PRDE did not perform reconciliations of salary charges to ED programs until it identified a purported deficit in its Title I account. This occurred because PRDE lacked internal control procedures over its payroll processing. We were unable to determine the extent of the improper salary charges to ED programs and the level of unsupported costs, because PRDE conducted erroneous reconciliations of the Title I payroll account for fiscal years 2002 and 2003. Further, PRDE and Hacienda failed to provide us adequate records necessary to initiate the analysis of the Title I and other ED accounts. As a result of this limitation to the

scope of our audit, we were unable to determine the amount of ED funds that were improperly charged.

Pursuant to 34 C.F.R. § 80.40(a),¹ “Grantees are responsible for managing the day-to-day operations of grant and subgrant supported activities. Grantees must monitor grant and subgrant supported activities to assure compliance with applicable Federal requirements and that performance goals are being achieved. Grantee monitoring must cover each program, function or activity.”

PRDE maintained its payroll accounts on its human resources operating system, which was developed and operated by RST. PRDE processed its payroll through Hacienda by providing payroll change data to Hacienda through RST. Hacienda uploaded the change data into its payroll system and processed PRDE's payroll twice per month.

The primary cause of improper salary charges to the Title I account was PRDE's failure to monitor payroll transactions processed by RST. Specifically, PRDE did not identify a significant payroll processing error that occurred in September 2001. In September 2001, PRDE requested RST to create change transactions to update payroll accounts for fiscal year 2002. RST wrote a computer program to create the transactions and sent the data to Hacienda for processing. According to an RST senior official, the selection criterion was written incorrectly and did not select the correct employees. This resulted in an undetermined number of state employee account codes being improperly changed to ED grant account codes. Staff at both RST and PRDE stated they were unaware that the update included numerous erroneous employees. In addition, PRDE neither monitored the transactions processed by the contractor, nor reconciled the data sent to Hacienda for processing to the source documents that supported each payroll change.

To identify the cause of the deficit in the Title I account, PRDE established a task force composed of personnel from the Office of Federal Affairs, the Finance Department, and the Computer Center. In August 2002, the Computer Center developed a program to reconcile the data in Hacienda's system to PRDE's system. PRDE's Accounting Division then reconciled the Title I payroll account for fiscal year 2002. The reconciliation identified \$84,141,309 improperly charged to the Title I payroll account from state activities; this was the basis for the Single Audit Finding 02-51. PRDE obtained an advance of \$81 million from the Puerto Rico Office of Management and Budget and, in January 2003, reimbursed the Title I account with the \$81 million. PRDE offset the remaining \$3,141,309 against state accounts because the reconciliation also had identified payroll from the Title I account that had been improperly charged to state accounts during fiscal year 2002. In addition, the reconciliation identified payroll totaling \$695,430 from employees of other governmental agencies of Puerto Rico charged to the Title I payroll account. PRDE identified these employees and sent collection letters to the agencies.

PRDE also reconciled the Title I payroll account for fiscal year 2003. The reconciliation identified \$57,764,458 improperly charged to the account. As of December 11, 2003, PRDE had reimbursed the Title I account \$49,789,989.

¹ Unless otherwise specified, all regulatory citations are to the July 1, 2002 volume.

Our evaluation of the reconciliation process and testing of 10 personnel files determined that PRDE did not accurately identify improper charges to the Title I payroll account. We found that the PRDE reconciliations of its data to Hacienda's data did not, in all cases, identify the actual variances in salary charges that occurred between the systems. Our evaluation noted one of the reasons for the inaccurate reconciliations was that PRDE compared Hacienda's salary data to the data in PRDE's system on the date the reconciliation program was run, rather than the actual date of the payroll. As a result, in cases where PRDE's data had been changed since the actual payroll processing, the reconciliation process identified inaccurate discrepancies. Because of this condition, we were unable to determine the extent of the improper salary charges to ED programs and the level of unsupported costs.

On July 29, 2003, we requested from PRDE all payroll transactions resulting in a transfer of data to Hacienda for processing, as well as all salary charges to ED grants for the period July 1, 1999 through July 29, 2003. On that same date, we requested similar information from Hacienda. The records were necessary to initiate our analysis of all ED accounts. As of January 21, 2004, the date of our exit conference, neither PRDE nor Hacienda had provided us the requested data.

PRDE's lack of internal control procedures over its payroll processing weakened PRDE's ability to ensure payroll was processed properly. Specifically, PRDE

- did not reconcile payroll transactions,
- did not monitor the results of records submitted to Hacienda for processing,
- allowed manual intervention to its payroll files, and
- had an excessive number of employees with direct access to the Hacienda system.

As of November 2003, PRDE had 117 employees with access to the Hacienda system. Of the 117 employees, 23 had "Read Only" access and 94 had "Change" authority. These 94 employees had sufficient access to manually enter transactions directly to the Hacienda system without posting a transaction in PRDE's system. While these transactions were recorded in the audit-trail module of Hacienda's system, the Hacienda staff did not monitor the transactions routinely. According to a Hacienda senior official, all of PRDE's payroll changes should go through RST; if RST did its job correctly, PRDE employees would not need to access Hacienda's system. PRDE also lacked an automated data transfer system for sending payroll files to Hacienda. Generally, PRDE sent the payroll data to Hacienda by e-mail. However, occasionally the data was saved to a disk and a PRDE employee hand delivered the disk to Hacienda.

Recommendations:

We recommend that the Chief Financial Officer for the Office of the Chief Financial Officer, in conjunction with the Assistant Secretary for the Office of Elementary and Secondary Education, require PRDE to

- 1.1 reconcile payroll transactions quarterly, re-evaluate and correct all reconciliations completed to date, perform additional reconciliations necessary to cover the period September 2001 to the present for all ED grants, and make appropriate adjustments to ED. PRDE also must obtain an independent evaluation of all reconciliations performed to ensure ED that all improper charges have been returned to the respective ED programs,
- 1.2 develop written internal control procedures over its payroll processing,
- 1.3 establish monitoring control procedures of all payroll transactions submitted to Hacienda for processing to ensure accuracy of the work performed,
- 1.4 eliminate or limit the amount of manual intervention allowed and performed in the payroll files generated by PRDE,
- 1.5 eliminate the direct access by PRDE employees to Hacienda's system. All PRDE payroll changes must go through its payroll contractor, RST, to maintain an appropriate level of internal control, and
- 1.6 automate the data transfer of files from PRDE to Hacienda to eliminate possible manual intervention.

PRDE's response

PRDE stated it was working in cooperation with ED to institute new procedures that would ensure that all salary charges to Federal programs are accurate and fully comply with Federal laws and regulations. PRDE also stated that the current administration inherited an antiquated and burdensome payroll system and had been working diligently to design and implement the far-reaching changes necessary to upgrade and modernize the payroll system in an orderly and timely fashion. Further, PRDE recognized this task was critical to ensuring the accuracy of the payroll system and its compliance with Federal and State regulations.

PRDE also stated it had established a Payroll Team that was working with ED to update PRDE's payroll system and that the team drew on expertise and experience from the accounting, auditing, budgeting, legal, human resources, and software fields. The Payroll Team, supported with technical assistance from ED, developed the following broad goals:

- ensuring people are paid from the proper accounts each time,
- ensuring the proper allocation of Federal funds using time distribution,
- identifying and resolving errors in a proper and timely manner,
- reengineering the current payroll transaction flow,

- streamlining and documenting the payroll processes, and
- adding internal controls to STAFF and the payroll process.

In response to recommendation 1.1, PRDE stated it was going to reconcile transactions on a quarterly basis for payroll transactions that commenced in January 2004. PRDE suggested

that the issue of past reconciliations and independent evaluation be discussed in the context of CAROI.

In response to recommendation 1.2, PRDE stated it was in the process of developing written internal control procedures, and had discussed this specific issue and was developing a plan in the context of the CAROI Payroll Team.

In response to recommendation 1.3, PRDE stated that the Human Resources Team had developed an integrated approach to reengineer the Human Resources/Payroll/Hacienda transaction flow.

In response to recommendation 1.4, PRDE stated that the approach developed in response to recommendation 1.3 would significantly reduce manual intervention in transaction processing, both at PRDE and Hacienda. The number of steps performed to run a payroll was reduced from more than forty steps to two fully automated steps.

In response to recommendation 1.5, PRDE stated that once the improvements to the payroll system were fully implemented, the need to directly access Hacienda's system by PRDE would be significantly reduced. PRDE's expectation was to reduce the number of employees directly accessing RHUM (Hacienda's system) with "change" authority from 94 to less than 20 employees, when the new interface is fully implemented by the end of 2004.

In response to recommendation 1.6, PRDE stated that only one transaction file was going to be sent to Hacienda. Because it would only be one file, and because the file would contain payroll identification data and payroll totals, this data could be easily sent electronically to Hacienda with minor risks. PRDE maintained that although the probability of data intervention was low, in the event data intervention did occur, it would be immediately detected through the Discrepancy Module in the Payroll Reconciliation component.

OIG's reply

We considered PRDE's general response and its response to each recommendation, but did not change our finding and recommendations. PRDE's request to resolve the issue of past reconciliations, independent evaluation, and the development of written internal control procedures through the CAROI process may be considered by ED's Chief Financial Officer and Assistant Secretary for the Office of Elementary and Secondary Education, as part of the audit resolution process. However, in order to accurately determine the improper salaries, PRDE must conduct reconciliations for each pay period and should have an independent evaluation of its written controls. PRDE's development of an integrated approach to reengineer the Human Resources/Payroll/Hacienda transaction flow should also emphasize the timely review of rejected files and other errors, and the ceasing of manual intervention by the Hacienda and PRDE staff. No PRDE employee should have direct access to Hacienda's system. All changes must go through PRDE's contractor, in order to maintain a minimal level of control. Contrary to PRDE's opinion, continued manual intervention provides opportunities for data manipulation. Reducing the number of transaction files will reduce some risk, but the risk remains. PRDE did not provide a description of the "Discrepancy Module," as a result, we cannot be assured any manual intervention would immediately be identified.

OBJECTIVE, SCOPE, AND METHODOLOGY

The objective of our audit was to determine the cause and extent of improper salary charges to ED programs. To achieve the audit objective, we reviewed PRDE's fiscal year 2002 Single Audit report and documents supporting the reported Finding 02-51 and interviewed officials from the audit firm that conducted the Single Audit, PRDE, RST, and Hacienda. We also reviewed electronic payroll files extracted by PRDE, RST, and Hacienda. In addition, we reviewed the methodology followed and the results of the reconciliations of the Title I payroll account performed by PRDE for fiscal years 2002 and 2003. From PRDE's May 2003 reconciliation, we obtained a list of the employees that were allocated to state accounts in PRDE's files, but were paid from the Title I account in Hacienda's system. We judgmentally tested the first 10 employees from the PRDE data to determine which account they were allocated to in PRDE's files during May 2003.

Through our interviews of PRDE, RST, and Hacienda officials, review of PRDE's Title I payroll account-reconciliations for fiscal years 2002 and 2003, and testing of the 10 sampled employee files, we determined that data provided by PRDE to meet the audit objectives was sufficiently reliable for supporting our conclusion that PRDE did not adequately identify the impact of the deficiencies noted. However, PRDE's and Hacienda's failure to provide necessary electronic data impaired our ability to properly evaluate the impact of improper charges to Title I and other ED programs. This audit scope limitation did not allow us to determine the extent of improper salary charges to ED programs and quantify the impact of the inaccurate reconciliations performed by PRDE.

We performed our fieldwork at PRDE's offices in Hato Rey, Puerto Rico, from July 22, 2003 through January 21, 2004, the date of our exit conference.

Our audit was performed in accordance with generally accepted government auditing standards appropriate to the scope of the review described above.

STATEMENT ON MANAGEMENT CONTROLS

As part of this audit, we assessed the system of management controls applicable to PRDE's payroll processing. Our assessment was performed to gain an understanding of PRDE's payroll system. Based on previous knowledge gained through our prior audits (ED-OIG/A01-90006, ED-OIG/A01-90007, ED-OIG/A01-A0004, ED-OIG/A02-B0012, ED-OIG/A02-B0025, and ED-OIG/A02-C0017) and ED's designation of PRDE as a "high-risk" grantee under 34 C.F.R. § 80.12, we determined the level of control risk, that is the risk that material errors, irregularities, or illegal actions may occur, to be high. We found that PRDE did not properly monitor payroll transactions submitted to Hacienda for processing, did not reconcile payroll transactions, allowed a significant amount of manual intervention in the payroll files it generated, lacked an automated data transfer system of payroll files, and had an excessive number of employees with direct access to Hacienda's system. These weaknesses and their effects are fully disclosed in the AUDIT RESULTS section of the report.

ADMINISTRATIVE MATTERS

If you have any additional comments or information that you believe may have a bearing on the resolution of this audit, you should send them directly to the following Education Department officials, who will consider them before taking final Departmental action on this audit:

Jack Martin
Chief Financial Officer
Office of the Chief Financial Officer
Federal Office Building 6
400 Maryland Avenue, SW, Room 4E313
Washington, DC 20202

Raymond J. Simon
Assistant Secretary
Office of Elementary and Secondary Education
Federal Office Building 6
400 Maryland Avenue, SW, Room 3W315
Washington, DC 20202

It is the policy of the U.S. Department of Education to expedite the resolution of audits by initiating timely action on the findings and recommendations contained therein. Therefore, receipt of your comments within 30 days would be greatly appreciated.

Statements that managerial practices need improvements, as well as other conclusions and recommendations in this report represent the opinions of the Office of Inspector General. Determinations of corrective action to be taken will be made by the appropriate Department of Education officials.

In accordance with the Freedom of Information Act (5 U.S.C. § 552), reports issued by the Office of Inspector General are available to members of the press and general public to the extent the information contained therein is not subject to exemptions in the Act.

Sincerely,

/s/

Daniel P. Schultz
Regional Inspector General
for Audit

Attachment



Commonwealth of Puerto Rico
DEPARTMENT OF EDUCATION

OFFICE OF FEDERAL AFFAIRS

22 APR 2004

Daniel P. Schultz
Regional Inspector General for Audit
U.S. Department of Education
Office of Inspector General
75 Park Place, Room 1207
New York, NY 10007

Dear Mr. Schultz

The Puerto Rico Department of Education (PRDE) appreciates the opportunity to submit comments regarding Draft Audit Report Control Number ED-OIG/A02-D0023. Enclosed please find our comments regarding the finding.

If you have any questions, please feel free to contact me.

Regards,

Ileana I. Fas-Pacheco
Director

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**PUERTO RICO DEPARTMENT OF EDUCATION RESPONSE TO
OIG DRAFT AUDIT REPORT
PRDE SALARIES FOR THE PERIOD JULY 1, 1999 TO JUNE 30, 2003
AUDIT CONTROL NO. ED-OIG/A02-D0023**

The Puerto Rico Department of Education (PRDE) appreciates the opportunity to respond to the Office of Inspector General's (OIG) March 11, 2004 draft audit report due today, April 22, 2004.

PRDE has the following response to the finding contained in the draft audit report.

Finding – PRDE's lack of controls over pay processing led to an undeterminable amount of improper salary charges

PRDE is working in cooperation with the U.S. Department of Education (ED) to institute new procedures that will ensure that all salary charges to Federal programs are accurate and fully comply with Federal laws and regulations. This work has included extensive site visits and technical assistance by ED since September 2003, when PRDE and ED formalized their collaborative efforts through the CAROI process.

PRDE's current administration inherited an antiquated and burdensome payroll system and has been working diligently to design and implement the far reaching changes necessary to upgrade and modernize the payroll system in an orderly and timely fashion. While improving and modernizing this system, the payroll system must continue to assure salary payments for PRDE's 78,000 employees. Although this task is formidable, PRDE recognizes that it is critical to ensuring the accuracy of the payroll system and its compliance with Federal and state regulations.

PRDE has established a Payroll Team that is working with ED to update PRDE's payroll system. This team draws on expertise and experience from the accounting, auditing, budgeting, legal, human resources, and software fields. PRDE's Payroll Team, supported with technical assistance from ED, developed the following broad goals:

- ensuring people are paid from the proper accounts each time,
- ensuring the proper allocation of Federal funds using time distribution,
- identifying and resolving errors in a proper and timely manner,
- reengineering the current payroll transaction flow,
- streamlining and documenting the payroll processes, and
- adding internal controls to STAFF and the payroll process.

PRDE collaborated with ED to develop the above goals and a corresponding action plan to accomplish the goals during the March 2004 CAROI meeting in San Juan, Puerto Rico. PRDE is finalizing its plan and has commenced work on a number of the goals. PRDE anticipates further productive technical assistance and fine tuning during the upcoming June 2004 CAROI meeting in Puerto Rico between PRDE and ED.

OIG concluded that the primary cause of improper salary charges was PRDE's failure to monitor payroll transactions. While PRDE recognizes that there has been room for improvement in this area in the past, the report fails to acknowledge the significant monitoring improvements undertaken by PRDE. As discussed in greater detail below in PRDE's "Response to OIG Recommendations," PRDE is implementing an automated process to perform account changes without the need for programming. In addition, beginning in January 2003, PRDE implemented a procedure requiring a payroll department supervisor to validate account codes. As explained below, as part of its improvements to the payroll transaction process, PRDE is implementing additional internal controls that will automatically validate that each account number used for a payroll transaction is allowable under the employee position code.

In addition, the report states that PRDE did not provide payroll transaction files to OIG. These transaction files were available for review and PRDE is uncertain why OIG did not review these files. Hacienda previously produced its payroll transactions files to OIG during the course of the audit; if necessary, Hacienda is willing to reproduce this information again for OIG if it would like to review the material.

PRDE Response to OIG Recommendations

In addition to the actions listed above, PRDE has also either already commenced work on, or has developed a plan for each recommendation listed in the OIG report. PRDE offers the following responses to the recommendations.

OIG Recommendation 1.1

Reconcile payroll transactions quarterly, re-evaluate and correct all reconciliations completed to date, perform additional reconciliations necessary to cover the period September 2001 to the present for all ED grants, and make appropriate adjustments to ED. PRDE must also obtain an independent evaluation of all reconciliations performed to ensure ED that all improper charges have been returned to the respective ED programs.

PRDE Response

PRDE will reconcile transactions on a quarterly basis for payroll transactions commencing in January 2004. PRDE suggests that the issue of past reconciliations and independent evaluation be discussed in the context of CAROI, where an appropriate sampling methodology can be developed for past payroll transactions and that this effort be synchronized with the Payroll Action Plan developed last month with ED's assistance.

OIG Recommendation 1.2

Develop written internal control procedures over its payroll process.

PRDE Response

PRDE is in the process of developing written internal control procedures and has discussed this specific issue and is developing a plan in the context of the CAROI Payroll Team.

OIG Recommendation 1.3

Establish monitoring control procedures of all payroll transactions submitted to Hacienda for processing to ensure accuracy of the work performed.

PRDE Response

The Human Resources Team has developed an integrated approach to reengineer the Human Resources/Payroll/Hacienda transaction flow that covers Transaction Origination to Payroll Reconciliation. This approach consists of the following five categories or components:

1. Transaction origination
2. Internal controls
3. Interface with Hacienda
4. Transaction rejections
5. Payroll reconciliation

Each category represents a major component of the Human Resources/Payroll transaction cycle. For each category, PRDE has identified specific processes that must be implemented or developed in order to improve the effectiveness and efficiency of the particular category. For example:

1. Reconciliation of items (transactions) between STAFF and RHUM to ensure all transactions are accounted for either as "processed" or "rejected."
2. Production of readable error messages to ensure that all transactions needing correction are properly identified.
3. Correction of errors to ensure that rejected transactions are corrected and re-submitted.
4. Consolidation of error files into one file to reduce the probability of missing error files.

5. Consolidation of RHUM transactions into one single file to avoid missing transaction files. (Currently, up to ten different transaction files may be produced for a given payroll.)
6. Production of RHUM/STAFF discrepancy reports to identify and report on data discrepancies in order to facilitate their correction.

OIG Recommendation 1.4

Eliminate or limit the amount of manual intervention allowed and performed in the payroll files generated by PRDE.

PRDE Response

Among the categories detailed above, two specific areas will significantly reduce manual intervention in payroll transaction files. These areas are the "Transaction origination" and "Interface with Hacienda."

1. STAFF will automatically generate most transactions through what PRDE refers to as the "pipeline". Once a user enters a Human Resources transaction that has an impact in Payroll, this transaction will be automatically sent through a pipeline to a file containing all payroll transactions to be sent to Hacienda.
2. When the payroll closing date arrives, the Payroll Office will review these transactions, and export them to Hacienda (RHUM) in a single file. (Currently, up to ten different transaction files are used for this purpose.)
3. When the file arrives at Hacienda, a new approach will be used to process the transactions. This approach will first validate all transactions to identify errors. Because the payroll date will be included in all transactions, the validation program will verify the date in order to ensure that the correct transaction file is being processed. Totals for all transactions in the file and for all transaction types will be calculated and compared to totals already included in the transaction file. All errors identified will be reported back to PRDE in the same transaction file to ensure that all transactions are properly accounted for and to provide data for item reconciliation at PRDE.
4. Transactions that successfully pass the validation process will be applied (loaded) to RHUM files. Errors originated at this stage will be appended to the transaction/error file going back to PRDE. This way only one file goes back to PRDE. It will be the same file originally sent by PRDE to RHUM, with the addition of both editing and loading error messages. This design was proposed to Hacienda by PRDE and it is currently being implemented. After full implementation at PRDE, Hacienda will make it available to other agencies.

The above processes will significantly reduce the manual intervention in transaction processing, both at PRDE and Hacienda. The number of steps currently performed to run a payroll is reduced from more than forty steps to two fully automated steps (validation and loading).

OIG Recommendation 1.5

Eliminate the direct access by PRDE employees to Hacienda's system. All PRDE payroll changes must go through its payroll contractor, RST, to maintain an appropriate level of internal control.

PRDE Response

Once the improvements to the payroll system are fully implemented, the need to directly access Hacienda's system by PRDE will be significantly reduced. PRDE's Human Resources System (STAFF) will automatically generate most transactions. PRDE's expectation is to reduce the number of employees directly accessing RHUM with "change" authority from ninety four (94) to less than twenty (20), when the new interface is fully implemented by the end of 2004.

While direct access has been significantly reduced, it will continue to exist in the short term. Examples of transactions that will continue to be entered directly into RHUM with appropriate internal controls are:

1. Garnishments, and
2. Off-cycle payroll transactions.

OIG Recommendation 1.6

Automate the data transfer of files from PRDE to Hacienda to eliminate possible manual intervention.

PRDE Response

As explained in the response to 1.4, only one transaction file will be sent to Hacienda. This file will contain a header record with the payroll date as well as the total number of transactions sent in the file. Subtotals by transaction types will also be included. Because it will be contained in only one file, and because the file will contain payroll identification data and payroll totals, this data can be easily sent electronically to Hacienda with minor risks.

Although the probability of data intervention is low, in the event data intervention does occur, it would be immediately detected through the Discrepancy Module in the Payroll Reconciliation component.

Conclusion

PRDE recognizes the important task before it in upgrading and modernizing its payroll system. As mentioned previously, PRDE's current administration inherited an outdated payroll system and has made the task of upgrading the system one of its top priorities. PRDE will continue to upgrade its payroll system with the assistance of the U.S. Department of Education and looks forward to continuing its productive and collaborative relationship with this Federal agency.