

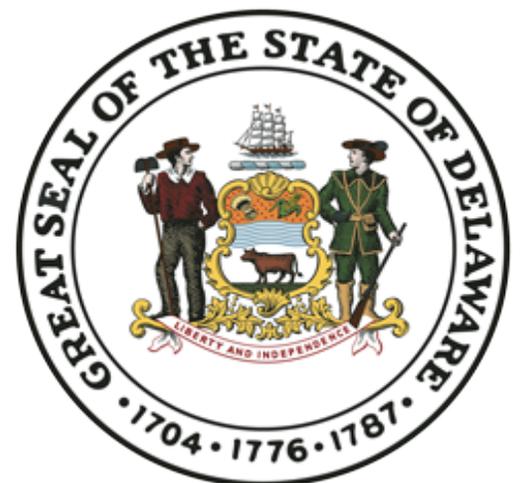
**State of Delaware
Office of Auditor of Accounts**

**Department of Health and Social Services
Division of the Visually Impaired
Salary Calculations for Merit Teachers
Employed at State Agencies**

Inspection

Report Issued: January 19, 2017

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Auditor of Accounts





State of Delaware
Office of Auditor of Accounts
R. Thomas Wagner, Jr., CFE, CGFM, CICA

At a Glance

Working Hard to Protect YOUR Tax Dollars

Why We Did This Review

The Office of Auditor of Accounts (AOA) received complaints via AOA's fraud hotline that the Department of Health and Social Services (DHSS), Division of the Visually Impaired (DVI) incorrectly paid employees numerous times.

The overpayments resulted in employee repayment agreements to reimburse the State; however, the reimbursement payments were not properly recorded as received by DVI.

This inspection was performed in accordance with the Council of the Inspectors General on Integrity and Efficiency, *Quality Standards for Inspection and Evaluation*.

For further information on this release, please contact:

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What We Found

Overall, AOA found that the salary paid to each employee was paid in accordance with the teacher salary calculation criteria established in 14 Del. C, §1305; however, AOA found minor errors in the salary calculation for each employee reviewed. These errors are further described in the report.

The employees were overpaid once but not by the fault of DVI or the employees. The overpayments were a result of days not worked at the end of the contract period which required adjustment to the salary already paid and resulted in repayment agreements.

DVI could not provide documentation for any salary repayments paid by Employee 2, nor could they provide proof that the salary repayments from either employee were forwarded to the Payroll Compliance Group (PCG) to be credited to the employees' behalf. Through separate inquiry, PCG confirmed that the payments made by Employee 2 were properly received and recorded, but Employee 1's payments received by PCG did not agree to the payments received by DVI. During fieldwork, DHSS management informed AOA that an active investigation was being conducted on one of its employees for the diversion of salary repayment checks. The employee has since been terminated and has been charged in the theft.

PHRST properly issued corrected W-2s (form W-2c) to both employees for Calendar Year (CY) 2010 and to Employee 2 for CY 2011. However, the theft of the repayments prevented Employee 1 from receiving a W-2c for CY 2011. PHRST should determine if a W-2c to Employee 1 for CY 2011 is warranted.

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Abbreviations:

AOA	Office of Auditor of Accounts
DHSS	Department of Health and Social Services
DOA	Division of Accounting
DVI	Division of the Visually Impaired
IRS	Internal Revenue Service
PCG	Payroll Compliance Group
PHRST	Payroll Human Resource Statewide Technology
TVI	Teachers for the Visually Impaired

Background

Delaware Department of Health and Social Services¹

The mission of the Department of Health and Social Services (DHSS) is “to improve the quality of life for Delaware’s citizens by promoting health and well-being, fostering self-sufficiency, and protecting vulnerable populations.”

DHSS oversees and administers the activities of the 11 Divisions listed below:

- Child Support Enforcement
- Developmental Disabilities Services
- Long Term Care Residents Protection
- Management Services
- Medicaid and Medical Assistance
- Public Health
- Services for Aging and Adults with Physical Disabilities
- Social Services
- State Service Centers
- Substance Abuse and Mental Health
- Visually Impaired

Division of the Visually Impaired²

The mission of the Division of the Visually Impaired (DVI) is to “...provide educational, vocational, and technical support to empower and foster independence for Delawareans with visual impairments.” It is the State’s oldest agency, dating back to 1909, and it currently supports the five major programs listed below:

- Education
- Employment
- Independent Living Services
- Delaware Industries for the Blind
- Business Enterprise Program

DVI’s Education Program³

DVI’s Teachers for the Visually Impaired (TVI) work with the Delaware Department of Education and Delaware’s school districts, charter schools, and local education agencies to ensure that eligible students with visual impairments are able to access education programs equal to those offered to their peers.

TVI offers consultation, assessment, and direct instruction to visually impaired students in every Delaware school district, charter school, and private school where visually impaired students are enrolled. The program assists families and educators on the appropriate use of vision-specific aids (such as Braille and Large Print), assistive equipment, and technology to assist the student in the classroom. These services are also offered to children from birth to three years of age in the home or in early intervention settings.

¹ Information obtained from various links in DHSS’ website located at <http://www.dhss.delaware.gov/dhss/> on December 9, 2015.

² Information obtained from DVI’s website located at <http://www.dhss.delaware.gov/dhss/dvi/about.html> on December 10, 2015.

³ Information obtained from DVI’s website located at <http://www.dhss.delaware.gov/dhss/dvi/educate.html> on December 10, 2015.

Calculating Teacher Salaries

Teachers employed by State of Delaware merit agencies are paid from the uniform state-supported salary schedule used by the school districts. This schedule is indexed for both years of experience and level of education. Any changes to the base salary or to the education and experience index are accomplished through revisions specified in the Epilogue section of the State’s Annual Appropriations Bill (Budget Bill).

The state-supported salary schedule is based on the teacher working a minimum of 188 days (10-month equivalent)⁴ and can be further adjusted upward for both 11-month (1.1 multiplier) and 12-month employment (1.2 multiplier), if applicable.⁵ Teachers employed by DVI have contract terms that start on September 1st and end on August 31st of the following year.

Approximately 70% of the salary paid to a teacher employed by a school district is derived from state appropriations (state share) and approximately 30% is derived from local school district sources (local share). State merit agency teachers do not have local school district funds (local share) available to them to supplement the teacher’s salary. Because of this, a divisor of .70 is applied to a State merit teacher’s indexed base salary calculation in order to convert the salary into a 100% State-funded salary.

The components used and the calculation order for 10-month teachers employed by state merit agencies are listed below:⁶

- Current teacher base salary
- Multiplied by the experience and education index
- Divided by .7 to convert to 100% state share equivalent
- Multiplied by 1.1 to convert from 10-month employment to 11-month or 1.2 to convert to 12-month employment, if applicable

Specific procedures for the calculation of salaries for State merit agency teachers and administrators are included in the State’s Fiscal Year 2016⁷ Budget Bill (House Substitute 1 for House Bill 225) and are listed below:

Teachers and administrators employed by state agencies and who are paid based on the Basic Schedule contained in 14 Del. C. § 1305, as amended by this Act, shall receive as a salary an amount equal to the index value specified in the appropriate training and experience cell multiplied by the base salary amount defined in 14 Del. C. § 1305(b), divided by 0.7 for ten months employment. If employed on an 11- or 12-month basis, the ten-month amount shall be multiplied by 1.1 or 1.2, respectively.

⁴ 14 Del. C. §1305 (e)

⁵ 14 Del. C. §1305 (d)

⁶ 14 Del. C. §1305 (a), (b), (d), and (e)

⁷ The State’s Fiscal Year begins July 1 and ends June 30.

Procedures and Results

The Office of Auditor of Accounts (AOA) received complaints via AOA's fraud hotline that the Department of Health and Social Services (DHSS), Division of the Visually Impaired (DVI) incorrectly paid employees numerous times. The allegations stated that the incorrect payments resulted in the employees signing repayment agreements to reimburse the State for overpayments of salary; however, some of the reimbursement payments were not properly recorded as received by DVI.

Teacher Salary Recalculation

Using the salary calculation criteria for merit agency teachers as described in the *Background* section of this report, AOA recalculated the salary of each teacher identified in the complaint (Employee 1 and Employee 2) over the period of review, September 1, 2010 through December 31, 2015. We then compared the calculated salary per 14 Del. C., §1305 to the actual salary paid to each employee according to the State's payroll system, Payroll Human Resource State Technology (PHRST). Other than nominal differences most likely caused by rounding, the variances we identified are described below.

2010-2011 Contract Period Salary Adjustments

AOA's salary recalculation for the 2010-2011 contract period confirmed that the two identified employees were overpaid only once as a result of days not worked at the end of the contract period. This generated overpayments to each employee and, therefore, repayment agreements for each employee were necessary to recover these overpayments. The salary adjustments made by DVI to account for the number of days actually worked were appropriate and were neither the fault of the employee nor the result of any errors on the part of DVI.

However, we found an error in the calculation used to adjust Employee 1's salary due to missed working days at the beginning of the contract period. The employee began employment with DVI on September 13, 2010 and missed the first 12 days of the contract period as a result of the late start. DVI erroneously calculated that Employee 1 missed 13 days. This error caused an underpayment of \$16.44 each pay period; however, it was corrected when the employee's salary was recalculated as part of the repayment agreement described above.

2011-2012 Contract Period Salary Errors

In the 2011-2012 contract year, DVI erroneously continued to pay the 2010-2011 adjusted bi-weekly salary for eight pay periods. This error caused underpayments of \$527.03 and \$2,867.77 for Employee 1 and Employee 2, respectively. However, the errors were appropriately corrected and the employees received retroactive pay.

Salary Repayments and Internal Revenue Service (IRS) Reporting

DVI is responsible for collecting salary repayments and forwarding them to the Division of Accounting's (DOA) Payroll Compliance Group (PCG). PCG is responsible for depositing all personal checks and money orders related to payroll repayments and PHRST is responsible for issuing employees any required IRS forms (i.e. W-2c).

DVI Salary Repayment Documentation

AOA attempted to review salary repayments received by DVI from Employee 1 and Employee 2 to determine if the repayments were properly forwarded to PCG. However, DVI was unable to provide AOA with documentation that any of the repayments were sent to PCG. The only information provided was a log of Employee 1's repayment checks received by DVI. No documentation was provided regarding payments from Employee 2.

Through separate inquiry, PCG confirmed that the payments made by Employee 2 were properly received and recorded, but Employee 1's payments received by PCG did not agree to the payments received by DVI. This discrepancy occurred because a DHSS employee in the payroll department diverted salary repayment checks submitted by Employee 1 for personal benefit. DVI informed AOA that the Office of the Attorney General was involved in an active investigation of this matter. The DHSS employee was terminated, arrested, and ultimately charged with the theft of the salary repayment checks.

DHSS should develop appropriate procedures to track and record checks received for payroll overpayments and ensure a proper segregation of duties to reduce the risk of this happening again.

IRS Reporting

If an employee repays an organization for wages received in error, no offsets to current wages should be taken unless the amount received in error is for the current year. If the repayment of wages were from the prior tax year, the employer must file form W-2c with the Social Security Administration to correct Social Security and Medicare wages and taxes.⁸

PHRST appropriately issued a W-2c for both employees for Calendar Year 2010 (CY 2010) and appropriately issued a W-2c to Employee 2 for Calendar Year 2011 (CY 2011). However, PHRST did not issue a W-2c for Employee 1 since PHRST did not receive any repayments for CY 2011 due to the aforementioned theft.

Per PCG policy, wages can be revised beyond the statute of limitations⁹ to correct "...an entry established through fraud." If not for the employee's theft of salary repayment checks, PCG would have and should have issued Employee 1 a W-2c for CY 2011. PHRST should revisit this issue and determine if a W-2c to Employee 1 for CY 2011 is warranted.

⁸ Information obtained from IRS General Instructions for Forms W-2 and W-3(2015) located at <https://www.irs.gov/instructions/iw2w3/ch01.html> on December 16, 2015.

⁹ 3 years, 3 months, 15 days

DHSS Response to Inspection Results

Communication between DVI and DHSS Human Resources (HR) regarding hires dates, missed days of work, and contract period has been improved to eliminate salary calculation errors. School calendars are now shared with HR in order to confirm actual school days before initial starting salaries are set.

Adjustment because of payroll system deadlines: HR and Payroll will continue to communicate and process contract period increases, as timely as possible, to avoid potential delays in payroll entry and subsequent retroactive corrections.

DHSS Payroll drafted [policies and procedures] after they requested a review by the Payroll Compliance Group. Employees have the option to pay through payroll deductions or personal check. Internal controls for segregation of duties and regular supervisory oversight have been put into place. All payroll personnel are aware of employee overpayments and regular reviews of status take place for record-keeping purposes. Letters are mailed to affected employees and those employees can also notify payroll, as another control, if they have, in fact, forwarded payment.