



FISCAL CRISIS & MANAGEMENT
ASSISTANCE TEAM

CSIS California School Information Services

Bellevue Union Elementary School District

Payroll Review

March 4, 2014

Joel D. Montero
Chief Executive Officer





March 4, 2014

Alicia Henderson, Ph.D., Superintendent
Bellevue Union Elementary School District
3150 Education Drive
Santa Rosa, CA 95407

Dear Superintendent Henderson:

In June 2013, the Bellevue Union Elementary School District and the Fiscal Crisis and Management Assistance Team (FCMAT) entered into an agreement for management assistance. Specifically, the agreement states that FCMAT will perform the following:

The primary focus of this review is to provide the district with reasonable assurance based on the testing performed that adequate management controls exist in the Payroll Department. Management controls include the processes for planning, organizing, directing, and controlling program operations, including systems for measuring, reporting, and monitoring performance. The payroll process is generally a high-risk audit area in which potential fraud issues such as fictitious employees or unauthorized misappropriation of assets may be detected. Specific objectives will include evaluating the policies, procedures, and internal controls related to the Payroll Department.

The FCMAT study team will sample test data from the current and one prior fiscal year and include a review of earnings, extra earnings, deferred net pay (10-month employees) and benefits. Testing for this review will be based on sample selection and will not include the testing of the complete payroll records. Sample testing and review results are intended to provide reasonable but not absolute assurance about the accuracy of timekeeping and payroll data. The objective of the report will be to provide findings regarding the efficiency and accuracy of the Payroll Department data and make recommendations for the following:

1. Provide reasonable assurance that payroll transactions are entered by properly authorized personnel and that the transactions are accurately summarized for salary and benefit compensation. The FCMAT study team will obtain the data and information necessary to test various payroll records. This component will evaluate the effectiveness and efficiency of departmental payroll processing operations, which include new hires, ghost employees, terminations, salary adjustments, over-time/comp time and leave time.

FCMAT

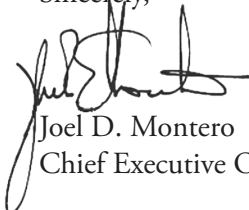
Joel D. Montero, Chief Executive Officer

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2. Provide reasonable assurance that access to the timekeeping and payroll operating system (Escape) is properly secured from unauthorized changes and that proper internal control systems exist for data transfers between the Payroll and Human Resources departments.
3. Evaluate the division of labor and segregation of duties between classified and management employees in the Payroll Department.
4. Review the Payroll Department workflow and staffing.
5. Provide recommendations regarding the feasibility of implementing a supplemental payroll for substitutes and hourly employees.
6. Determine the feasibility of eliminating the certificated split payroll in December and January.
7. Review the records processing procedures and file management protocol.
8. Evaluate desk manuals and procedures for each departmental employee.
9. Review the integration and use of position control with the Payroll and Personnel departments.
10. Verify that the district complies with the State Teachers' Retirement System of California (STRS) regarding employee/employer contributions and reporting.
11. Verify that the district complies with the California Public Employees' Retirement System (CalPERS) regarding employee/employer payments and reporting.
12. Review the unemployment compensation process to ensure that the district complies with the payment and reporting process for the California State Office of Unemployment Compensation.
13. Ensure that the federal and state withholding allowances claimed by district employees agree with the withholding allowances entered in the payroll system.
14. Review the procedures related to deductions and payments to vendors, including but not limited to insurance carriers.

This final report contains the study team's findings and recommendations. FCMAT appreciates the opportunity to serve the Bellevue Union Elementary School District and extends thanks to its staff for their cooperation and assistance during this review.

Sincerely,



Joel D. Montero
Chief Executive Officer

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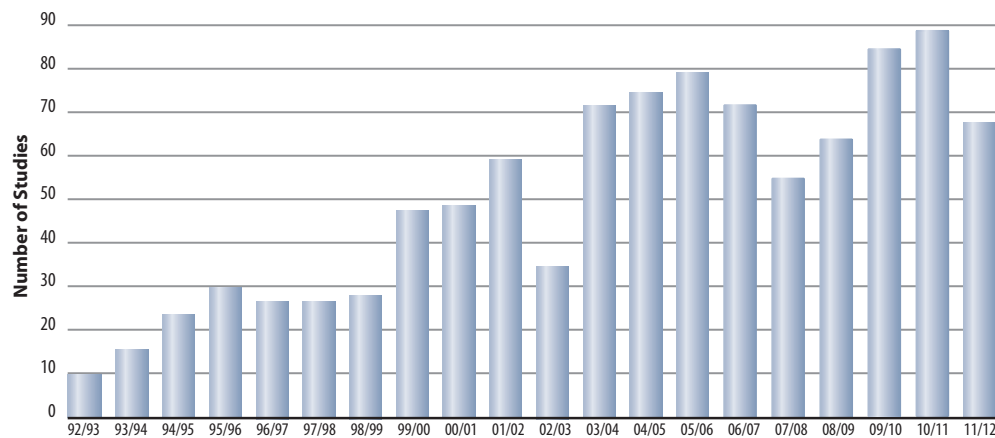
About FCMAT

FCMAT's primary mission is to assist California's local K-14 educational agencies to identify, prevent, and resolve financial and data management challenges. FCMAT provides fiscal and data management assistance, professional development training, product development and other related school business and data services. FCMAT's fiscal and management assistance services are used not just to help avert fiscal crisis, but to promote sound financial practices and efficient operations. FCMAT's data management services are used to help local educational agencies (LEAs) meet state reporting responsibilities, improve data quality, and share information.

FCMAT may be requested to provide fiscal crisis or management assistance by a school district, charter school, community college, county office of education, the state Superintendent of Public Instruction, or the Legislature.

When a request or assignment is received, FCMAT assembles a study team that works closely with the local education agency to define the scope of work, conduct on-site fieldwork and provide a written report with findings and recommendations to help resolve issues, overcome challenges and plan for the future.

Studies by Fiscal Year



FCMAT also develops and provides numerous publications, software tools, workshops and professional development opportunities to help local educational agencies operate more effectively and fulfill their fiscal oversight and data management responsibilities. The California School Information Services (CSIS) arm of FCMAT assists the California Department of Education with the implementation of the California Longitudinal Pupil Achievement Data System (CALPADS) and also maintains DataGate, the FCMAT/CSIS software LEAs use for CSIS services. FCMAT was created by Assembly Bill 1200 in 1992 to assist LEAs to meet and sustain their financial obligations. Assembly Bill 107 in 1997 charged FCMAT with responsibility for CSIS and its statewide data management work. Assembly Bill 1115 in 1999 codified CSIS' mission.

AB 1200 is also a statewide plan for county offices of education and school districts to work together locally to improve fiscal procedures and accountability standards. Assembly Bill 2756 (2004) provides specific responsibilities to FCMAT with regard to districts that have received emergency state loans.

In January 2006, SB 430 (charter schools) and AB 1366 (community colleges) became law and expanded FCMAT's services to those types of LEAs.

Since 1992, FCMAT has been engaged to perform nearly 850 reviews for LEAs, including school districts, county offices of education, charter schools and community colleges. The Kern County Superintendent of Schools is the administrative agent for FCMAT. The team is led by Joel D. Montero, Chief Executive Officer, with funding derived through appropriations in the state budget and a modest fee schedule for charges to requesting agencies.

Introduction

Background

Located in Sonoma County, the Bellevue Union Elementary School District has a five-member governing board and serves approximately 1,736 K-6 students at four school sites, including one locally funded conversion charter school. Student enrollment has remained relatively unchanged since 2007-08, and reached a peak of 1,762 students in 2008-09. Approximately 70% of the district's students are English learners, and 92% are eligible for free or reduced-price meals.

The community supported the district by passing a \$19 million general obligation bond measure in 2008 to help provide funding to build new classrooms and improve infrastructure.

District staff indicated that during the 2012-13 fiscal year employees reported numerous payroll errors. In addition, the district's external auditors found several payroll errors during their April 2013 testing. Because of this, the district requested FCMAT's assistance, and in June 2013 the Bellevue Union Elementary School District and the Fiscal Crisis and Management Assistance Team (FCMAT) entered into an agreement for management assistance to review the management controls of the district's Payroll Department.

Discussions with district staff indicated that scope points 5 and 6 of the study agreement (see Appendix B of this report) were not to be included in FCMAT's review because the district has already implemented a supplemental payroll and does not have a split payroll for certificated employees.

Study and Report Guidelines

FCMAT visited the district on September 12 and 13, 2013 to conduct interviews, collect data, and begin reviewing documents. In November 2013, district staff provided the documents requested for testing. This report is the result of those activities and is divided into the following sections:

- Executive Summary
- Department Staffing and Structure
- Department Processes, Procedures and Compliance
- Appendices

In writing its reports, FCMAT uses the Associated Press Stylebook, a comprehensive guide to usage and accepted style that emphasizes conciseness and clarity. In addition, this guide emphasizes plain language, discourages the use of jargon and capitalizes relatively few terms.

Study Team

The study team was composed of the following members:

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*As members of this study team, these consultants were not representing their respective employers but were working solely as independent contractors for FCMAT. Each team member reviewed the draft report to confirm its accuracy and to achieve consensus on the final recommendations.

Executive Summary

The Bellevue Union Elementary School District Office has experienced a series of major changes beginning approximately three years ago when the Sonoma County Office of Education changed the countywide human resources, financial and payroll software system from the California Educational Computer Consortium (CECC) to Escape Technology. The district's previous payroll technician resigned in May 2013, and the district reorganized job duties and promoted the account technician to the business technician position, which includes payroll functions. In July 2013 the district created a Human Resources Department, which is composed of a director of human resources position that reports directly to the superintendent. District staff indicated that the reorganization was prompted by the numerous payroll errors employees reported in 2012-13 and errors the district's external auditors found during their April 2013 testing.

Because Human Resources is a new department, standard written processes and procedures that outline the work flow between the Human Resources and Business Services departments have not yet been developed. In addition, the director of human resources and the business technician are new to their positions. These issues, as well as the errors mentioned above and throughout this report, have created a challenging situation for the two departments regarding communication and the timelines needed to meet county office payroll processing deadlines. This can be resolved with defined procedures and timelines for processing information between the two departments, and with additional training and opportunities for communication among all involved parties.

The job descriptions for several positions in the Business Services and Human Resources departments need to be updated to ensure that they are current, include the appropriate supervisor, include the date the job description was approved and/or revised by the governing board, and comply with the Americans with Disabilities Act (ADA). Job descriptions also need to be reviewed to ensure that confidential employees are properly classified in accordance with Government Code Section 3513(f).

For the 10th of the month supplemental payroll, employees submit time cards on the last business day of the month; school sites and departments are required to submit them to the Payroll Department on the same day. This does not give sites and departments time to ensure the information is accurate and complete, so the business technician must spend time tracking down the correct information before payroll is processed. The district should work with the county office to determine if the time card cutoff can be changed to an earlier date each month or if the supplemental payroll date can be changed to a later date each month to allow sufficient time for review by sites or departments. The Human Resources and Business Services departments' staff also need to review payroll timelines and establish written deadlines for sites, departments and Human Resources to submit documents to the Payroll Department for each pay cycle; the deadlines should accommodate internal needs and meet the county office's payroll deadlines.

Internal controls are the foundation of sound financial management and allow districts to fulfill their educational mission while helping ensure efficient operations, reliable financial information and legal compliance. Internal controls also help protect the district from material weaknesses, serious errors and fraud. To help provide for proper internal controls, the district should implement several changes to its processes, including the following:

- Ensure that the director of human resources is responsible for entering all employee demographic data into Escape, including hire and termination dates, salary placement and stipend information, position full-time equivalent (FTE), work calendars, and health benefit and retirement elections.

- Ensure that the business technician is responsible for auditing the employee data entered into Escape by the director of human resources, calculating and posting salary adjustments and time card data, and reconciling employee absences.
- Ensure that the director of financial services reviews and approves the payroll before it is submitted to the county office.
- Ensure that the staff member who processes a particular paycheck or vendor check does not have access to the check once it is processed by the county office.
- Ensure that no employee has access to all of the Escape screens needed to create and pay an employee.
- Assign the account technician/receptionist to audit the payroll vendor invoices and applicable tax forms and process them for payment in the financial software system, after they have been reconciled by the business technician.
- Ensure that employees are cross-trained in all key areas of responsibility.

To increase efficiency and provide employees with easy access to human resources and payroll information, the district should post on its staff website portal the most common payroll and human resources forms and information for employees to easily access; all forms should be posted in a format that can be filled out electronically. The district should also provide helpful links on its website to entities such as CalSTRS, CalPERS, the Internal Revenue Service, the Employment Development Department, and healthcare plan providers.

FCMAT requested documents from 43 payroll files for testing. Some of the requested information was provided from 40 files; however, several of the requested documents were missing and some of the files for substitutes could not be located. Therefore, FCMAT was unable to complete its testing in all of the requested payroll areas as discussed throughout this report. The district needs to create and maintain payroll files for each employee, including substitutes; ensure that all documents used to generate payroll are filed in the individual employee's payroll file; review the required retention period for all payroll documents; and establish procedures to ensure that documents are kept for the required amount of time and stored in a secured, central facility.

Findings and Recommendations

Department Staffing and Structure

Bellevue Union Elementary School District's payroll is processed through the Sonoma County Office of Education (county office) using the countywide Escape financial accounting software. The payroll system is integrated with the human resources and financial modules, including position control. All employee data including pay rates are entered into the system by the district's human resources and payroll staff.

The district office experienced a series of major changes beginning approximately three years ago when the county office changed the human resources, financial and payroll software system from California Educational Computer Consortium (CECC) to Escape Technology. In addition, the previous payroll technician resigned in May 2013, and the district has reorganized job duties to meet the needs of various district office functions.

Effective July 2013, the district created a Human Resources Department, which consists of a director of human resources position. This is a confidential position and reports directly to the superintendent. The executive assistant to the superintendent, who was performing some human resources duties, was promoted to director of human resources.

The director of human resources has been with the district for approximately one year and is learning the nuances of school district administration. This individual recently completed the Association of California School Administrators' (ACSA) Personnel Administrators Academy and has attended a few workshops at the county office for human resources and Escape training.

This position is responsible for the hiring process for all district employees; entering some new employee demographic data in Escape, including Social Security number, name, and address; entering employee tuberculosis (TB) and fingerprinting dates in Escape; monitoring certificated employee credentials; and entering certificated substitute data in AESOP, the district's online substitute placement system. Additional duties include developing an employee handbook, assisting the superintendent with employee grievances, and sitting on the district's negotiating teams.

The district also eliminated the former payroll technician position and created a confidential business technician position. The district's account technician was promoted to this new position and had been performing payroll duties for about three months at the time of FCMAT's field-work. This individual has been with the district for approximately five years, serving in various business office positions, and recently completed the California Association of School Business Officials' (CASBO) CBO Training Program. The business technician has also attended some county office workshops for payroll and Escape training.

The business technician prepares, processes and reconciles the payroll and employee deductions for approximately 100 certificated and 60 classified employees and all substitutes. This includes creating new positions in the position control system; entering some demographic information for new employees, compensation and benefit rates for all employees, time card data for hourly employees and substitutes, and stipends and extra duty pay data into the payroll system; monitoring and reconciling employee absences; calculating pay adjustments; processing employee voluntary and involuntary deductions; and processing vendor payments for health and welfare benefits.

The business technician is also responsible for student attendance reporting and for completing budget and accounting functions for the Kawana Academy of Arts and Sciences charter school.

A retired county office employee with expertise in Escape has been hired as a consultant on an as-needed basis to assist and train the business technician on payroll processes, including the retrieval and use of various Escape reports for auditing payroll data. Interviews with staff indicated that district staff need continued training in the Escape system and that a thorough review of payroll data may be necessary because of errors discovered over the last few years. This will be discussed in more detail later in this report.

Organizational Structure

A school district's organizational structure should establish the framework for leadership and the delegation of duties and responsibilities. As a district's enrollment increases or declines, the organizational structure should adapt to the changes. The district should be staffed according to basic, generally accepted theories of organizational structure and the standards used in other school agencies of similar size and type. The most common theories of organizational structure are span of control, chain of command, and line and staff authority.

Span of Control

Span of control refers to the number of subordinates reporting directly to a supervisor. While there is no agreed-upon ideal number of subordinates for span of control, it is generally agreed that the span can be larger at lower levels of an organization than at higher levels because subordinates at the lower levels typically perform more routine duties, and therefore can be supervised more easily.

Chain of Command

Chain of command refers to the flow of authority in an organization and is characterized by two significant principles. Unity of command suggests that a subordinate is only accountable to one supervisor, thus eliminating the potential for an employee to receive conflicting direction and instruction from a variety of supervisors. The scalar principle suggests that authority and responsibility should flow in a direct vertical line from top management to the lowest level. The result is a hierarchical division of labor.

Line and Staff Authority

Line authority is the relationship between supervisors and subordinates. It refers to the direct line in the chain of command. For example, in Bellevue the superintendent has direct line authority over the director of financial services, and the director of financial services has direct line authority over the business technician. Conversely, staff authority is advisory in nature. Staff personnel do not have the authority to make and implement decisions, but act in support roles to supervisory personnel. The organizational structure of local educational agencies contains both line and staff authority.

The purpose of any organizational structure is to help a district's management make key decisions to facilitate student learning while balancing financial resources. The organizational design should outline the management process and its specific links to the formal system of communication, authority, and responsibility necessary to achieve the district's goals and objectives.

Authority in a public school district originates with the elected governing board, which hires a superintendent to oversee the district. Through the superintendent, authority and responsibility are delegated to the district's administration and staff. As indicated in Board Policy 2000,

Concepts and Roles, the superintendent may make decisions about district operations within the parameters of law and board policy and is to provide leadership in developing the organizational structure.

Management positions are typically responsible for supervising employees and overseeing the work of the department for which they are responsible. They must ensure that staff members understand all district policies and procedures and perform their duties in a timely and accurate manner. Managers must also serve as a liaison between their department and others to identify and resolve problems and design and modify processes and procedures as necessary. Management positions should not typically be responsible for routine daily functions of the department; these functions should be assigned to department support staff.

The district's organizational chart dated August 2, 2013 included an account technician/receptionist/cafeteria position. At the time of FCMAT's fieldwork, staff indicated that the district had hired a part-time cafeteria position. The district's revised organizational chart dated September 17, 2013 shows the change and includes an account technician/receptionist position and a cafeteria position. The configuration of the district's organizational chart allows for separation of duties related to payroll functions. Methods to improve internal controls are discussed later in this report.

Because Human Resources is a new district department, standard written processes and procedures that outline the work flow between the Human Resources and Business Services departments have not yet been developed. In addition, the director of human resources and the business technician are new to their positions. These issues, as well as the errors mentioned previously and throughout this report, have created a challenging situation for the two departments regarding communication and the timelines needed to meet county office payroll processing deadlines.

This can be resolved with defined procedures and timelines for processing information between Human Resources and Business Services, and with additional training and opportunities for communication among all involved parties. For example, it would benefit the district for the director of human resources and the business technician to continue attending the training provided by the county office so they can better understand the functions of the Escape financial accounting software and to attend county office payroll and human resources meetings together or share with each other information from those meetings so they have an opportunity to network with other districts in the county and share knowledge between the two departments.

Better communication between the Human Resources and Business Services departments could also be fostered by regular weekly or monthly meetings that include the director of financial services, business technician and director of human resources. Meeting agenda items should include defining new processes and procedures, developing timelines, and discussing current issues. The director of financial services needs to act as the liaison between the Human Resources and Business Services departments.

Job Descriptions

Director of Financial Services

The director of financial services job description does not indicate to whom the position reports, and does not include the date it was approved by the governing board.

Business Technician

The business technician job description was approved by the board on June 26, 2013 and states:

Under the general supervision of the Director of Financial Services and Superintendent, the Business Technician assists the Director of Financial Services with all fiscal operations including payroll.

This violates the unity of command principle of the chain of command discussed above, because the job description states that the business technician is accountable to two supervisors: the director of financial services and the superintendent.

The business technician position is classified as confidential. However, based on the information provided, this position may not meet the criteria for a confidential position contained in Government Code Section 3513(f), which states:

“Confidential employee” means any employee who is required to develop or present management positions with respect to employer-employee relations or whose duties normally require access to confidential information contributing significantly to the development of management positions.

District Accounts Technician/Office Receptionist

The district accounts technician/office receptionist job description is dated February 2012; however, it does not indicate that this was the governing board approval date. The job description states that the position works under the direct supervision of the superintendent and director of fiscal services. This violates the unity of command principle of the chain of command.

The job description for this position includes a title that does not match the title of account technician/receptionist given to it on the district’s organizational chart dated September 17, 2013.

The job descriptions for several Business Services and Human Resources departments’ positions need to be updated, as indicated above. In addition, some documents did not include minimum weight lifting and repetitive duty requirements necessary for compliance with the Americans with Disabilities Act (ADA). Some job descriptions did not list essential job functions. As currently written, the district could not use some of its job descriptions as evidence of essential duties in accommodation cases, nor should it use these job descriptions when making employment decisions related to an applicant’s ability to perform essential duties. Reviewing and revising job descriptions to ensure that duties are correctly identified as essential will help protect the district from disability discrimination claims from applicants and/or employees who may be eligible for reasonable accommodations under the ADA.

Recommendations

The district should:

1. Develop written procedures that outline the work flow and establish necessary internal timelines between the Human Resources and Business Services departments.
2. Ensure that staff members, including the director of human resources and business technician, continue to attend Escape training as needed, including those provided through the county office workshops and online webinars.
3. Research the possibility of participating in the county office’s Escape User Group meetings so that staff can share any concerns during system upgrades.

4. Ensure that the business technician and/or director of human resources attend county office payroll and human resources meetings and share the information they receive with each other.
5. Schedule and conduct regular meetings of the director of financial services, business technician and director of human resources.
6. Ensure that the director of financial services acts as the liaison between the Human Resources and Business Services departments.
7. Review and update job descriptions to ensure that they are current, include the appropriate supervisor, include the date the job description was approved and/or revised by the governing board, and comply with the ADA.
8. Ensure that confidential employees are appropriately classified in accordance with Government Code Section 3513(f).
9. Ensure that position titles on its organizational chart match those on the job descriptions.

Department Processes, Procedures and Compliance

Payroll Cycles and Deadlines

All regular salaried and hourly employees are paid on the last business day of each month. All substitute and extra duty time is paid on a supplemental payroll on the 10th of each month.

The district must adhere to the county office's deadlines for submitting payroll information. The payroll process includes the business technician entering all necessary changes to employee data in Escape, generating and reviewing the preliminary payroll report, and reviewing various exception reports for mismatched or incomplete data. The business technician then makes any needed corrections before the payroll is finalized and required reports are submitted to the county office.

For each end-of-month payroll, the Human Resources Department is to submit all necessary forms to payroll and enter required data in Escape by the 10th of the month. The business technician must then process, audit and submit payroll to the county office by the deadlines established on the county office's Escape payroll production calendar.

For the supplemental payroll, all time worked from the first through the last business day of the month is to be reported on employee time cards. School sites and departments submit the time cards to payroll on the last business day of the month for payment on the 10th of the following month. In interviews, staff indicated that some time cards are submitted without position titles, multiple positions are frequently included on the same time card, and hours are often combined for multiple positions. As a result, the business technician must spend time tracking down the correct position and hours worked for each position, which makes it difficult for the district to meet the county office's payroll deadlines.

One of the reasons this happens is that the district has employees submit time cards on the last business day of the month and requires school sites and departments to submit this information to payroll on the same day, which does not give sites and departments time to ensure the information is accurate and complete.

The study team could not determine the accuracy of the monthly supplemental employee earnings history reports because the time card data requested for testing was incomplete.

Recommendations

The district should:

1. Assign the Human Resources and Business Services department staff to review payroll timelines and establish deadlines for submitting documents from sites and departments and Human Resources to the Payroll Department for each pay cycle. These deadlines should accommodate internal needs and meet the county office's payroll deadlines.
2. Put the established payroll document submission deadlines in writing and provide them to all applicable site and department staff.
3. Work with the county office to determine if the district may change its time card cutoff to an earlier date each month, such as the 20th or 25th, to allow sufficient time for review at the site or department level. If this change cannot

be implemented, work with the county office to determine if the supplemental payroll date can be changed to a later date each month, such as the 15th instead of the 10th.

4. If it continues to use manual time cards, consider redesigning them to clearly indicate the position and time worked in each position (examples are included in Appendix A).

Operational Efficiency

The district uses the Escape financial accounting software through the Sonoma County Office of Education to process its payroll and accounting transactions. This is advantageous to the district because the county office offers frequent professional development training and assistance on each software module including credentialing, human resources and payroll.

After the close of each pay cycle, the Payroll Department performs an audit on the pay records and releases the payroll to the county office for final processing and preparation of paychecks. The county office prepares the district's federal Form 941 and state DE 9 quarterly wage and tax reports. The county office also completes the monthly reconciling, reporting, and remitting of California State Teachers' Retirement System (CalSTRS) and California Public Employees' Retirement System (CalPERS) earnings, including employee and employer contributions to meet the retirement systems' deadlines. The district's Payroll Department is responsible for balancing and remitting the state quarterly unemployment wages and taxes.

New Hires

The director of human resources is responsible for the district's hiring processes. The director of human resources adds the request for a new position on the governing board agenda and notifies the requesting site or department if the position was approved following the board meeting.

The certificated employee action form or classified employee action form is completed by the director of human resources for all new hires and employee assignment changes. These forms require approval from the superintendent and director of financial services. The director of human resources enters the employee's basic demographic data into Escape, including the Social Security number, name, address, and phone number.

A notice of certificated employment is also completed by the director of human resources for certificated new hires. Information on this form includes employee name, first day of service, salary and classification information, and credential requirements. Each certificated employee must meet with the superintendent before the form is signed by both parties. The director of human resources also completes an employment notification for classified employees.

The forms are submitted to the business technician, who enters salary placement data into Escape, including step and column for certificated employees; range and step for classified employees; years of service credit; masters or doctorate verification; and position control number.

To ensure separation of duties and proper internal controls, the director of human resources should be responsible for entering all employee demographic data into Escape. This includes hire and termination dates; work calendar and full-time equivalent (FTE) data; salary placement information, including column or range and step, educational degree, units and other additional compensation that creates the employee monthly, daily, or hourly pay rate; account code; contractual stipend payments; health benefit elections; and CalSTRS and CalPERS retirement membership elections. The business technician should be responsible for auditing the system data entered by the director of human resources, calculating and posting salary adjustments and time card data, and reconciling employee absences.

In interviews, staff indicated that the district conducted an employee orientation for new teachers for the first time this year but not for new classified employees. A standard orientation program for all new employees is a best practice and would help employees become familiar with the district's policies and procedures. Use of the Internet to publish or webcast new employee

processing procedures and health and welfare benefit information may also be helpful because it would be available to employees if they have routine questions following the orientation.

The director of human resources is developing an employee handbook. This will benefit all employees by providing them with consistent and accurate information.

The new hire packet provided to employees includes numerous forms such as the health benefit enrollment form; the deferred net pay (DNP) selection, which indicates whether employees whose work year ends in May wish to defer part of their monthly pay so that they can receive a paycheck in June; tax withholding forms; union dues application; and direct deposit authorization form. These forms are submitted to the business technician for data entry in Escape.

Staff indicated that the DNP selection information was previously included on the health benefit enrollment form but that this was confusing to staff, so a separate DNP selection form was developed. However, confusion remains regarding in which non-work months employees who select DNP will receive a check. Employees are able to choose whether they want the DNP option annually. Revising the DNP selection form to include monthly payment information would help eliminate this confusion. The revised form should be placed in the new hire packet and made available on the district's website as a file that can be filled out electronically (an example form is included in Appendix A).

Substitute Placement and Employee Absence Tracking

The director of human resources is responsible for hiring substitutes. The director enters demographic data for all substitutes in Escape and information for substitute teachers in the AESOP substitute placement and absence management system. AESOP is an automated substitute calling system that also allows substitutes to search for and accept jobs online. District teachers who require a substitute may use AESOP to choose one.

Staff indicated that not all teachers use AESOP when they require a substitute; some call the substitute teacher directly. The system is also not used for classified staff positions that require substitutes, such as custodians and food service workers. Rather than use AESOP to electronically track all substitute time worked, a paper time card is kept in the site or department office and the substitute or office staff complete it each day. The time cards are to be submitted to the business technician on the last business day of the month. Staff indicated that some site and department office staff compare the substitute teacher time cards with the information in AESOP and others do not.

The district uses manual leave forms rather than AESOP to track and report employee absences. Staff indicated that some site and department office staff compare teachers' leave forms with the information in AESOP and others do not. Leave forms are to be submitted to the business technician on the last business day of the month.

To make full use of AESOP, staff need to use it to report all employee absences and substitute time, both certificated and classified, regardless of whether the absence requires a substitute. A hierarchical approval process can also be created in AESOP so that requests for leave time can be approved online. To increase efficiencies, district business services and human resources staff and the director of information technology should meet with county office staff to determine if a process can be designed to download AESOP data to Escape. Using this kind of electronic system would eliminate the need for paper time cards and leave forms and save time.

Staff also indicated that there is confusion regarding all of the positions that are approved to have substitutes. Developing and distributing written procedures to sites and departments regarding which positions are to have substitutes would help alleviate this confusion.

Terminations

Board Policy 4117.2/4217.2/4317.2, Resignation, indicates that an employee who desires to resign is to submit a letter indicating the date of his/her last work day, and authorizes the superintendent or their designee to accept an employee's written resignation. Interviews indicated that the district will also accept a verbal resignation; however, the district's policy does not provide for this.

The director of human resources places all terminations on the personnel report for ratification by the governing board, and the business technician enters the termination information into Escape.

To streamline the termination process and ensure that the district has all the information needed, a standard resignation/retirement form could be developed and provided to employees to complete. This form would contain all necessary information, including employee name and identification number; school site; position; reason for resigning or separating from the district; last day of employment; CalSTRS/CalPERS retirement date, if applicable; and employee signature and date (an example form is included in Appendix A).

Once the district receives an employee's resignation it is best practice for the director of human resources to send an acknowledgement letter to the employee indicating the superintendent's or designee's acceptance, the effective date of the resignation, the district's health benefit policy or Consolidated Omnibus Budget Reconciliation Act (COBRA) information, and final paycheck date.

To provide for separation of duties and proper internal controls, it is best practice for the director of human resources to complete the certificated or classified employee action form, enter all employee separation information in Escape, and provide the Payroll Department with the completed form. The business technician should contact the applicable school site or department to verify that all leave, overtime and compensatory time information has been submitted, and then calculate the final paycheck.

Salary Adjustments, Overpayments and Underpayments

Salary adjustments are usually one-time adjustments for items such as late starts; step, range or column movement; promotions or demotions; retroactive pay; overuse of leave time, including sick leave, vacation accruals, Family and Medical Leave Act (FMLA); workers' compensation temporary disability benefits; and terminations. The business technician calculates and enters all salary adjustments into the Escape payroll module, and the director of financial services reviews the adjustments.

Salary overpayments or underpayments occur when a mistake is made somewhere in the payroll process. For example, an employee may be placed at the wrong step or column on the salary schedule or paid for time that was not worked. It is inevitable that an overpayment or underpayment will occur at some point in the payroll process. Education Code Section 45167 provides direction regarding underpayment errors that are the fault of the district and requires that such errors be corrected within five workdays. However, settling overpayments can be problematic.

Staff indicated that some salary overpayments have occurred in the past, and the district's procedure for recovering salary overpayments requires the affected employee to meet with district office

staff and mutually agree to a repayment plan. This repayment plan is a written document that outlines the amount and number of months the deduction will be subtracted from the employee's paycheck, and is signed by the employee. However, staff indicated that this procedure was not always followed in the past. For example, on one occasion the entire overpayment was deducted from the employee's next paycheck without authorization from the employee. In addition, one staff member indicated they thought the district may not be going back to collect amounts that were overpaid in the past. Depending on the circumstances, this may be considered a gift of public funds because allowing for an overpayment does not serve a public purpose.

Best business practices include having a written procedure for collecting salary overpayments, sharing it with staff, and regularly following it. When developing the written procedure, the district should consult with its legal counsel to determine specific procedures for consistent handling of overpayments, and include in those procedures a collection process in case such action becomes necessary.

Overtime and Compensatory Time

Article 8 of the district's collective bargaining agreement with the California School Employees Association (CSEA) provides for classified employees to earn overtime based on the provisions of Education Code Section 45128. The agreement states the following regarding compensatory time:

- 1.7.1 Employees who complete an extended hour assignment or overtime may request compensatory time off in lieu of cash. The District will determine whether compensatory time off or cash will be paid for overtime.
- 1.7.2 Compensatory time shall be taken at a time mutually acceptable to the employee in the bargaining unit and the District within twelve (12) months of the date, the District shall pay the employee in cash for all such time at the appropriate overtime rate based on the employee's current rate of pay.

Staff indicated that the district has not authorized compensatory time for classified employees.

Articles 2, 7, 13, and 14 of the district's collective bargaining agreement with the Bellevue Education Association (BEA) address compensatory time. Article 2 provides for unit members to earn compensatory time for performing duties or assignments requested by the district that are beyond those required for salary compensation. Compensatory time is earned minute for minute unless otherwise noted in the agreement. For example, Article 7 states:

7.A.2. Rainy Day Duty

On rainy days, classroom teachers will provide and be compensated for supervision of their students in their room during the ten (10) minutes before instruction begins and during the first or last ten (10) minutes of their scheduled lunch period as assigned by their administrator.

For each ten (10) minutes of rainy day supervision assigned and provided, each unit member will be compensated with fifteen (15) minutes of compensatory time.

7.B.4. Excess Assigned Duty

If a unit member is assigned an extra duty, they will be compensated fifteen (15) minutes for every ten (10) served. If a unit member volunteers and is approved for a duty they will be compensated on a minute for minute basis.

A certificated compensatory time log is to be completed and submitted to the principal at the end of each trimester. Earned compensatory time is accumulative, and certificated employees may take the time off with pay or be paid at the substitute rate.

Staff indicated that compensatory time for certificated staff is extremely time-consuming for school sites to monitor. In addition, information is kept at the school sites and is not routinely sent to the district office for review.

The annual financial report from the district's external auditors dated June, 30, 2012 included finding 2012-1 Compensatory Time Policy. The finding states that the district does not have a policy in place to limit the amount of compensatory time certificated employees carry over to the subsequent year, and that 24 employees had accumulated \$38,500 in unused time as of June 30, 2012. It further states, "If employees with substantial compensatory time left the District and the District had to pay the employee for the accumulated compensatory time, the financial impact to the District could be significant." The report recommended that the district develop a policy that requires employees to use time by the end of each fiscal year or pay out excess balances. At the time of FCMAT's fieldwork the policy had not been developed.

Bonus Leave Days

Both the certificated and classified collective bargaining agreements allow employees to earn up to two bonus leave days per year, based on the employee's use of sick leave during the prior year. Bonus leave days do not accumulate or carry forward into the next fiscal year, and there are no restrictions on when an employee can take the bonus leave days during the year earned.

Staff indicated that numerous certificated and classified employees used their bonus leave days during the last week of school in May 2013. Substitute teachers were hired to cover the classrooms, but many classified positions remained unfilled. Having a large number of employees absent at the same time can disrupt student services and hinder efficient operation of the district.

Vacation Leave Time

Permanent classified employees earn paid vacation time as provided in Article 12 of the CSEA collective bargaining agreement. Vacation time is accrued as follows:

<i><u>Years of Service</u></i>	<i><u>Rate of Vacation Time Earned</u></i>
1 through 5 years	1 day per month worked
6 through 10 years	1.25 days per month worked
11 through 19 years	1.667 days per month worked
20 or more years	2 days per month worked

Twelve-month classified employees take vacation time during the year with the approval of their immediate supervisor or site administrator. An employee is required to complete an absence request form, and once approved, the form is submitted to payroll for input into Escape. The forms are due to the Payroll Department by the 15th of each month.

Classified employees who work less than twelve months receive a vacation payout on the June 10 supplemental payroll because they do not routinely take vacation leave during the school year.

The collective bargaining agreement does not identify the method to be used to calculate vacation accruals for employees who work less than twelve months, or the accrual and use of vacation leave for new employees.

Staff indicated that issues regarding vacation days began to appear during the 2012-13 fiscal year when the previous payroll technician miscalculated vacation accruals based on employees' anniversary dates. FCMAT's testing of the absence request forms and leave transaction reports for 40 employees for 2012-13 and 2013-14 revealed that three employees had incorrect absent dates or absence type, or no absence type reported in Escape.

The district's absence request form is a paper document that must be completed manually by employees and sent to the supervisor for approval before it is forwarded to the district office for processing. To save time and be more efficient, this form could be designed to be filled out electronically and placed on the staff portal of the district's website. The form could then be completed by employees, emailed to the supervisor for approval, and emailed to the district office.

Staff indicated that there is no coordination between the Human Resources and Payroll departments for leave tracking. Coordination between the two departments is necessary to ensure that absences related to FMLA, sick leave differential, and workers' compensation leave are properly recorded.

Conducting meetings with the human resources and payroll staff when collective bargaining agreements are negotiated that affect payroll procedures would help ensure that these agreements are interpreted and their provisions applied consistently. It would also be beneficial to provide annual training to office managers, principals and department managers to ensure that they have the most current information regarding payroll and human resources processes and procedures.

Recommendations

The district should:

1. Ensure that the director of human resources is responsible for entering all employee demographic data into Escape, including hire and termination dates, salary placement and stipend information, position FTE, work calendars, and health benefit and retirement elections.
2. Ensure that the business technician is responsible for auditing the employee data entered into Escape by the director of human resources, calculating and posting salary adjustments and time card data, and reconciling employee absences.
3. Develop a standard orientation program for all new employees, and ensure that all new employees receive an orientation.
4. Consider posting new employee processing procedures and health and welfare benefit information on the staff portal of its website.

5. Revise the DNP selection form to include monthly payment information, place the form in the new hire packet, and make it available on the district's website as a form that can be filled out electronically.
6. Research the AESOP system to ensure the most current version is installed and that sites, departments and district office staff are aware of and trained in all its features.
7. Provide districtwide AESOP training to all current employees, to new hires during orientation, and throughout the year as needed; and include the training materials on the staff portal of its website.
8. Consider using AESOP to track all employee absences and substitute time worked.
9. Consider working with the county office to determine if a process can be developed to download information from AESOP to Escape so that substitute time cards can be eliminated and payment information can be generated electronically, and so leave forms can be eliminated and absences tracked and recorded electronically.
10. Develop and distribute written procedures regarding the positions for which substitutes are to be obtained.
11. Consider developing a standard resignation/retirement form and encouraging employees to complete it at the time of separation.
12. Ensure that the director of human resources enters all employee separation information in Escape and provides the Payroll Department with a completed certificated or classified employee action form to calculate the final paycheck.
13. Ensure that the business technician contacts the applicable school site or department to verify that all leave, overtime and compensatory time information has been submitted before calculating the final paycheck.
14. In consultation with its legal counsel, develop and implement written procedures for the consistent handling of salary overpayments, including a collections process should such action be necessary.
15. Work with the certificated bargaining unit to renegotiate the collective bargaining agreement language regarding compensatory time in order to comply with the 2011-12 audit finding and accompanying recommendation.
16. Ensure that school sites and departments submit employees' compensatory time records to the district office regularly for review, possibly at the end of each trimester.
17. Consider renegotiating the use of bonus days with the certificated and classified bargaining units so that a limited number of staff take the days off at the same time and days are not taken during peak periods, such as the first or last week of school.

18. Consider renegotiating with the classified bargaining unit the vacation language in the collective bargaining agreement to identify the method used to calculate vacation accruals for employees who work less than twelve months, and accruals and use of vacation leave for new hires.
19. Consider developing an absence request form that can be filled out electronically and placing it on the staff portal of its website so that it can be completed and emailed to the supervisor and district office.
20. Ensure that the Human Resources and Payroll departments collaborate regarding leave tracking policies and that the director of human resources has view-only access to the Escape leave screens.
21. Conduct meetings with the human resources and payroll staff when bargaining unit agreements are negotiated that affect payroll processes and procedures.
22. Provide annual training to office managers, principals and department managers regarding payroll and human resources processes and procedures.
23. Post on the staff portal on its website the most common payroll and human resources forms and information for employees to easily access; all forms should be posted in a format that can be filled out electronically.
24. Collaborate with the county office to determine if access is available to display employee pay stubs and leave balances in the staff portal.
25. Provide Internet links on its website to various entities such as CalSTRS, CalPERS, and healthcare plan providers for employees to easily access.

Internal Controls

Internal controls are the foundation of sound financial management and allow districts to fulfill their educational mission while helping ensure efficient operations, reliable financial information and legal compliance. Internal controls also help protect the district from material weaknesses, serious errors and fraud. All educational agencies should establish internal control procedures that do the following:

- Prevent internal controls from being overridden by management.
- Ensure ongoing state and federal compliance.
- Provide assurance to management that the internal control system is sound.
- Help identify and correct inefficient processes.
- Ensure that employees are aware of the proper internal control expectations.

Districts should apply the following basic concepts and procedures to their transactions and reporting processes to build a solid internal control structure:

- System of checks and balances
Formal procedures should be implemented to initiate, approve, execute, record and reconcile transactions. The procedures should identify the employee responsible for each step and the time period for completion. Key areas of checks and balances include payroll, purchasing, accounts payable and cash receipts.
- Separation of duties
Adequate internal accounting procedures should be implemented and changes made as needed to separate job duties and protect the district's assets. No single employee should handle a transaction from initiation to reconciliation, and no single employee should have custody of an asset (such as cash or inventory) and maintain the records of related transactions.
- Staff cross-training
More than one employee should be able to perform each job. Each staff member should be required to use accrued vacation time, and another staff member should be able to perform those duties. Inadequate cross-training is often a problem even in the largest central business offices.
- Timely reconciliations
Bank statements and account balances should be reconciled monthly by an employee independent from the original transaction and recording process. For example, the employee who reconciles the revolving checking account should not be the same person who maintains the check stock.

A system of internal controls consists of policies and procedures designed to provide the governing board and management with reasonable assurance that the organization achieves its objectives and goals. Hard controls include segregation of duties, management review and approval, and reconciliations. Soft controls include management tone, performance evaluations, training programs, and maintaining established policies, procedures and standards of conduct. The district lacks some of these elements in its payroll processes as indicated below and elsewhere in this report.

System Security

View-only and/or change access to software programs should be restricted to designated employees based on job duties. Staff indicated that the business technician has access to change all modules and screens in Escape. Therefore, this position is able to add, change and delete human resources, payroll, financial and purchasing records. The director of human resources has access to change only the employee demographic screens in Escape.

Allowing any individual access to change all the screens necessary to set up and pay an employee does not provide proper internal controls; a fictitious employee may be created and paid without the district's knowledge.

The director of financial services or the director of information and technology could be designated as the district's superuser for Escape, with the ability to add and remove users and determine each user's level of access. The superuser should designate to which screens or modules each user has view-only or change access.

In the district's case, it would be best practice to provide the business technician with view-only access to employee demographic, salary placement and health and welfare screens, and the director of human resources with view-only access to the payroll screens and change access to enter all the information described previously in the Operational Efficiency section of this report. In addition, the business technician should not be assigned to enter any information on the screens designated as view-only.

Separation of Duties

Proper separation of duties is a key factor in creating strong internal controls. The business technician is responsible for processing, balancing, auditing, signing and submitting the payroll to the county office at the end of each payroll cycle. The district's payroll checks are processed by the county office and are then picked up by the business technician. The business technician sends the paychecks to the school site office managers so that employees may pick them up. Checks not picked up by employees on payday are sent back to the district office.

This district's system has internal control weaknesses because it allows the business technician to sign the payroll report that is submitted to the county office and to have custody of the checks once they have been issued by the county office.

A preprinted list that includes each site or department employee name and a corresponding signature and date line should be sent to the sites and departments with the paychecks. This document should be returned by sites and departments to the district office with any remaining paychecks. This will help improve internal controls by allowing staff to quickly ensure that the proper checks are sent to each site and department and that those not signed for are returned to the district office for mailing.

The business technician also reconciles the health and welfare vendor invoices and creates the associated accounts payable entries in Escape. The district could improve internal controls by assigning the account technician/receptionist to audit the health and welfare vendor invoices and process them for payment in the financial software system, after the invoices have been reconciled by the business technician.

Desk Manuals and Cross-Training

Desk manuals that include policies and procedures help ensure proper internal controls and provide a better understanding of each position's responsibilities. The manuals can also be a valuable tool for completing necessary functions when the employee normally assigned to a particular

duty is absent. The district lacks desk manuals that include step-by-step procedures for each job duty. Following are some items that should be included in a payroll desk manual:

- Escape screen shots of the payroll fields to be completed
- Forms and other materials needed for completion internally and by school sites, with instructions regarding each document
- Monthly, weekly, and daily timelines for information due to or from various departments, school sites and the county office

Cross-training is essential to ensure that district operations continue without interruption in the event of an employee absence or position vacancy, and to ensure that employees are able to use their accrued vacation time. Although the director of financial services has prior payroll experience, the business technician is the only district employee who knows how to process payroll in the Escape system. Payroll tasks are essential to the district's operations, and the lack of cross-training in this area could place the district at risk.

Recommendations

The district should:

1. Designate the director of financial services or the director of information and technology as the superuser for Escape.
2. Provide the director of human resources with view-only access to payroll screens and the business technician with view-only access to employee demographic, salary placement and health and welfare benefit screens.
3. Ensure that the business technician is not assigned to enter employee demographic, salary placement and health and welfare benefit information in the financial software system.
4. Ensure that the director of financial services reviews and approves the payroll before it is submitted to the county office.
5. Ensure that the staff member who processes a particular paycheck or vendor check does not have access to the check once it is processed by the county office.
6. Include a preprinted list of site and department employee names that includes a signature and date line and that is sent with the payroll checks. Require each employee to sign and date the form when picking up their check, and ensure that the site or department returns the signed list and any unissued payroll checks to the district office.
7. Assign the business technician to reconcile the health and welfare vendor invoices and the account technician/receptionist to audit the invoices and process them for payment.
8. Assign each district office staff member to complete step-by-step procedures for each of their job duties and include these procedures in a desk manual.
9. Ensure that employees are cross-trained in all key areas of responsibility.

Records Processing Procedures and File Management

The school site office staff and employees complete monthly time cards for reporting time worked as a substitute and/or extra time and submit them to the site office manager at the end of the month. The office manager reviews the time cards and submits them to the Payroll Department.

Employees complete an absence request form to report absences then submit it to the site office manager. The office manager processes the forms and submits them to the Payroll Department.

All original payroll documents are submitted to the Payroll Department and are used by the business technician to process payroll. The district is required to retain all documents used to process payroll; the record retention laws vary by type of document, and employee personnel documents should be kept separate from payroll documents.

The California Code of Regulations requires school districts to maintain permanent employee records. Title 5, Section 16023 states:

The original of each of the records listed in this section, or one exact copy thereof when the original is required by law to be filed with another agency, is a Class 1 -Permanent record and shall be retained indefinitely, unless microfilmed in accordance with Section 16022(c)...

(c) Personnel Records.

(1) Employees.

(A) All detail records relating to employment, assignment, amounts and dates of service rendered, termination or dismissal of an employee in any position, sick leave record, rate of compensation, salaries or wages paid, deductions or withholdings made and the person or agency to whom such amounts were paid. In lieu of the detail records, a complete proven summary payroll record for every employee of the school district containing the same data may be classified as Class 1 -Permanent, and the detail records may then be classified as Class 3 -Disposable.

Section 16026 further states:

A Class 3 -Disposable record shall not be destroyed until after the third July 1 succeeding the completion of the audit required by Education Code Section 41020 or of any other legally required audit, or after the ending date of any retention period required by any agency other than the State of California, whichever date is later. A continuing record shall not be destroyed until the fourth year after it has been classified as Class 3 -Disposable.

The district's Board Policy 3580 and Administrative Regulation 3580, District Records, provides further guidance regarding storage, retention and disposal of district documents.

To meet these requirements, the Payroll Department filing system needs to have a separate payroll file for every employee that includes items such as the following:

- The calculation of the employee's regular rate of pay
- W-4 and DE 4 forms
- Authorization from the employee for any voluntary deductions, including a salary reduction form for any tax-sheltered annuities and health insurance elections

- Authorization from issuing agency for any involuntary deductions or garnishments
- Absence records including leaves of absence
- Documentation of any stipends paid to the employee
- Documentation of any salary adjustments including repayment of salary
- Authorization form for direct deposit of paycheck, if applicable

The information used to generate each payroll, including time cards and absence tracking forms, should be included in the payroll file so that employee history data may be easily located. However, the district has bundled documents such as the absence request forms and filed them separately by month.

FCMAT requested documents from 43 payroll files for testing. Some of the requested information was provided from 40 files; however, several documents were missing as discussed elsewhere in this report. In addition, some of the files for substitutes could not be located. Staff indicated that the district used a countywide process for obtaining certificated substitutes until approximately one year ago. When the countywide process was used, the county office kept all demographic and payroll withholding information for substitutes and entered that information in the district's payroll system. However, the process has since changed, and the district is now responsible for obtaining and entering payroll information for certificated substitutes.

Recommendations

The district should:

1. Ensure that documents used to generate payroll, including absence request forms, are filed in the individual employee's payroll file.
2. Review the retention period for all payroll documents and establish procedures to ensure that documents are kept for the required amount of time and stored in a secured, central facility.
3. Work with the county office to determine if there is the capability in Escape to attach scanned documents; this would reduce the need for file space and provide better and faster access to employee records.
4. Ensure that a payroll file is created and maintained for each employee, including substitutes.

Position Control Integration

To be effective, a single position control system needs to be used and integrated with other financial software modules such as budget and payroll. In addition, position control functions need to be separated to ensure proper internal controls. The controls should ensure that only board-authorized positions are entered into the system, that human resources hires only employees for authorized positions, and that payroll pays only employees hired for authorized positions. Proper separation of duties is a key factor in creating strong internal controls and a reliable position control system. The Human Resources and Business Services departments are key areas in which strong internal control systems must be implemented to initiate, approve and execute board-approved hiring decisions.

The following table provides an example of a distribution of labor in the position control system that maintains a high level of internal controls:

Task	Responsibility
Approve or authorize position.	Governing Board
Input approved position into position control, with estimated salary/budget. Every position is given a unique number.	Business or Human Resources Department
Enter demographic data into the main demographic screen, including: Employee name Employee address Social Security number Credential Classification Salary schedule placement Annual review of employee assignments	Human Resources Department
Review and update employee work calendars. Update employee step and/or column placement.	Human Resources Department
Update employee benefits. Annually review and update salary schedules.	Business or Human Resources Department
Account codes Budget development Budget projections Multiyear projections Salary projections	Business Department

The district's position control system is in Escape and is integrated with the human resources and payroll modules. The director of financial services oversees the budget aspects in position control. If a new position or a change to the account number of a current position is needed, the director of financial services asks the business technician to make the change in the system. When a position is filled, the employee action form is generated by the director of human resources and submitted to the business technician. The business technician attaches the employee to the position and, as discussed previously, enters most of the employee's data in Escape.

The business technician is able to create new positions and make changes to existing positions in the position control system, and make changes in the payroll system. The business technician has unlimited access to all screens in both systems, which does not provide for proper internal controls.

At the beginning of each fiscal year, the business technician rolls over position control data from the prior year. Interviews with staff also revealed that the business technician and the director of financial services create and/or review the salary schedules at the beginning of each fiscal year.

The district's salary schedules do not identify the fiscal year in the title. In addition, job classifications are not listed on several of the salary schedules, including those for certificated administrative, classified management and confidential employees. This information needs to be included on the schedules so that is easily identified and reduces the possibility of error.

The certificated salary schedule adopted by the governing board on May 18, 2013 was condensed for the 2013-2014 fiscal year and lists steps 1 to 21. The prior schedule included steps 1 to 19, 22 and 23. The study team did not find any information in the certificated collective bargaining agreement for July 1, 2012 to June 30, 2014 that explains these changes. This has created some confusion for staff regarding whether they have been properly placed on the salary schedule.

The classified employee salary schedule approved by the board on January 15, 2013 does not list all steps in numerical order. It includes steps 1-5, 8, 10, 13, 15, 18, 20, 22, 24, 26 and 28. After the district's transition to Escape, changes were made to the salary schedules in the software system to include steps one through 28. However, staff indicated that when the changes were made some employees were not correctly placed on the schedules.

To avoid salary schedule placement errors and provide for proper internal controls, schedules could be developed by the director of human resources, reviewed by the business technician, and approved by the director of financial services. The director of information and technology could then update the salary schedule module in Escape in a test environment. The schedules in Escape would then be reviewed by the director of human resources and the director of financial services, and the recalculated salaries would be reviewed by the business technician.

At the beginning of each fiscal year, the district sends each employee an employment notification. Each employee is asked to review and verify their demographic and assignment information, including salary schedule placement, and return the signed form to the district office. Staff indicated that the employment notification document is difficult for some employees to understand. To make the document more user friendly and ensure that correct information is included in Escape, the district could consider providing a definition of terms on the back of the document.

In interviews, staff indicated that position control reports are not distributed to sites and departments for review. Site and department managers need to be provided with a position control report that includes a list of all employees charged to their respective budgets each spring during budget development and again after the start of the school year. The report should include each employee's name, position, hours per day, and the funding source for the position. Site and department managers should review the report for accuracy and immediately report any inconsistencies to the Business Services Department. This process helps verify the position control database, which affects the budget and employee compensation.

Recommendations

The district should:

1. Separate position control duties appropriately between the Human Resources and Business Services departments to provide for proper internal controls.
2. Consider assigning the director of financial services to maintain the position control master list and to input new approved positions and changes to position numbers in the system.

3. Consider assigning the director of human resources to attach the employee to the position at the time of hire.
4. Ensure that the business technician does not have, and that this position's assigned duties do not require, change access to all the Escape screens necessary to create and pay and individual.
5. Include the fiscal year in the title of all salary schedules.
6. List the appropriate job classifications on each salary schedule.
7. Ensure that checks and balances are applied in the development and review of salary schedules.
8. Ensure that all salary schedule changes made in Escape are reviewed and tested prior to implementation.
9. Consider having the board approve all salary schedules each fiscal year, and indicate on each schedule any changes made from the prior fiscal year.
10. Provide the employment notification to each employee early enough each fiscal year for them to review and return the document to the district office in time for any necessary changes to be made before the first payroll period.
11. Consider including a definition of terms on the back of the employment notification.
12. During budget development and at the beginning of each school year, provide site administrators and department managers with position control reports that include all employees charged to their budgets, and ensure they are reviewed for accuracy.
13. Ensure that the director of human resources and the director of financial services regularly monitor position control information.

CalSTRS and CalPERS Contributions and Reporting

The Sonoma County Office of Education is responsible for the reporting requirements to the California State Teachers' Retirement System (CalSTRS) and the California Public Employees' Retirement System (CalPERS) for all school districts in the county. School district retirement reporting is complex and often difficult to interpret without adequate training from both CalSTRS and CalPERS. Online training, webinars, and additional resources such as email alerts, are available from both agencies.

It is important for the district's human resources and payroll staff to have access to the online retirement systems for both entities to obtain information needed regarding new employees and to check service credit for employee retirements. The business technician has online access to both retirement systems and has attended training provided by the county office regarding CalPERS. However, the director of human resources lacks training in and online access to both retirement systems.

The business technician determines the retirement status of new employees by analyzing the employee action forms, information included in the new employee payroll packets, and the CalSTRS election form included in the certificated payroll packet. The business technician verifies the employee's status on the CalSTRS or CalPERS website. If a new classified employee is scheduled to work 20 hours a week or more and is not already a CalPERS member, the district completes and submits the CalPERS enrollment form to the county office. The business technician also enters the retirement information in Escape and audits the payroll file before it is submitted to the county office. If a retirement error has been detected during the audit process, it is corrected before the final payroll is submitted. Staff indicated that the county office reviews the retirement coding to ensure that it is correct before they submit the required reports to CalSTRS and CalPERS.

Having the director of human resources determine the retirement status of new employees and input the information in Escape, and having the business technician review and audit the retirement status, would provide for proper internal controls and separation of duties.

Recommendations

The district should:

1. Provide the director of human resources with online access to CalSTRS and CalPERS.
2. Ensure that the director of human resources and the business technician have been provided with adequate training, including training provided by the county office, and access to resources for CalSTRS and CalPERS.
3. Assign the director of human resources to determine the retirement status of new employees and input the information in Escape.
4. Assign the business technician to review and audit the retirement status.

Unemployment Compensation Processing and Reporting

At the end of each payroll quarter, the business technician generates the State Quarterly Report Employee Listing in the Escape software. This report provides a list of employees paid during the quarter and totals for State Unemployment Insurance (SUI) wages, SUI deducted, State Income Tax (SIT) wages, and SIT withheld.

The business technician reconciles the total taxes due; completes the Employment Development Department DE 9423 form, Quarterly Contribution Return for School Employers; and creates the associated accounts payable entries in Escape. The district could improve internal controls by assigning the account technician/receptionist to audit the DE 9423 form and process it for payment in the financial software system after the form is completed by the business technician.

In interviews, staff indicated that the Escape report shows an odd-cent rounding error for the SUI deducted total. Therefore, the business technician must recalculate the total taxes due.

The study team used the following documents to test the tax reporting for form DE 9423 for the quarters ending on March 31, 2013 and June 30, 2013:

- State Quarterly Report Employee Listing (Pay91a)
- Quarterly Contribution Return For School Employers, form DE 9423

Based on the recalculation of the total tax due, the DE 9423 forms tested are correct.

Recommendations

The district should:

1. Assign the account technician/receptionist to audit the DE 9423 form and process it for payment.
2. Notify the Sonoma County Office of Education of the rounding error on the Escape State Quarterly Report Employee Listing and work with them to determine if it can be corrected in the software.

Federal and State Withholding Allowances

When first hired, all employees must complete, sign and submit to the district a federal Form W-4. Form W-4 is used for federal income tax withholding purposes. The form is also valid for California income tax withholding if the employee wishes to claim the same marital status, number of regular allowances, and/or the same additional dollar amount to be withheld. A state DE 4 form for California income tax withholding must be completed if deduction information differs.

The district's new employee payroll packets include forms W-4 and DE 4. It would benefit the district to also place links to the Internal Revenue Service and Employment Development Department on its website so employees can easily access and print tax forms as needed.

The W-4 and DE 4 forms must be retained for at least four years from their last effective dates. However, the district should keep the old forms as part of the employee's permanent payroll file even after they have been replaced with a new form to help protect against any action or wage lawsuits.

A random sample of 40 employee payroll files was provided for testing and included 17 certificated and 23 classified employees. Employee tax withholding certificates were requested from district staff, and federal forms W-4 and state forms DE 4 were provided to FCMAT. The documents were compared with employment notification forms and the payroll audit by employee reports provided for fiscal years 2012-2013 and 2013-2014 to determine whether the federal and state withholding allowance claimed by employees agreed with the withholding allowances entered and paid on the payroll system.

FCMAT's testing revealed the following:

- 17 certificated records tested:
 - 12 employees' forms matched the pay records.
 - Two employees did not have a W-4 or DE 4 form on file to support the payroll withholding processed.
 - Three pay records did not match the W-4 and DE 4 forms on file.
- 23 classified records tested (five of the 23 classified records tested included multiple errors, and each of the errors is included in the following list):
 - 13 employees' forms matched the pay records.
 - Two employees did not have a W-4 or DE 4 form on file to support the payroll withholding processed.
 - Four employees submitted a payroll change form to change their tax withholding without submitting new W-4 and DE 4 forms to support the change.
 - Nine pay records did not match the W-4 and DE 4 form.

Recommendations

The district should:

1. Consider adding links to the Internal Revenue Service and Employment Development Department on its website.

2. Ensure that all employee payroll files include W-4 and DE 4 forms that support the withholding amounts included in the payroll system.
3. Revise the change in tax withholding section of the payroll change form to notify employees that a valid W-4 and/or DE 4 form must be submitted to change their tax withholding.
4. Keep the W-4 and DE 4 forms for at least four years from their last effective date, and consider keeping them indefinitely in the employee's payroll file.

Employee Deductions and Vendor Payments

The processing of all voluntary and involuntary payroll deductions is assigned to the business technician. The business technician's job description includes duties to reconcile and process payment records with benefit and insurance vendor invoices and initiate payments to the benefit and insurance carriers. The district could improve internal controls by assigning the account technician/receptionist to audit payroll vendor invoices and process them for payment in the financial software system after the business technician has reconciled the invoices.

To test payroll deductions, the study team was provided with the benefit selection sheet and the California's Valued Trust Group Membership Enrollment/Change form. The sample of deductions withheld from employees' paychecks for April 2013 revealed that the payroll deduction amount differed from the authorization form effective with the October 2013 open enrollment. Staff indicated that employee payroll benefit deductions are inflated each month for summer coverage. The inflated amount is based on the benefit selection sheet multiplied by 12-months, then divided by the number of months the employee is paid. Based on the data provided, testing of the payroll deduction amount could not be reconciled with the payroll audit by employee report.

The district uses a third party administrator to oversee tax-sheltered annuity accounts and deferred compensation plans offered to employees. Third party administrators typically provide retirement planning workshops, prepare required participant notifications and act as the district's liaison with employees. However, interviews with staff indicated that there is minimal district oversight of the third party administrator. Best business practices include the district reviewing its third party administrator retirement plan agreements to ensure that all employee tax-sheltered annuity account and deferred compensation plan documents, loans from these accounts, and salary reduction agreements are in compliance with federal law.

Several of the district's payroll change forms provided to FCMAT listed changes to the employees' voluntary deductions, including tax-sheltered annuity accounts; however, the documents provided did not include a salary reduction agreement for the change.

Recommendations

The district should:

1. Assign the business technician to reconcile payroll vendor invoices and the account technician/receptionist to audit the invoices and process them for payment.
2. Revise the benefit selection sheet to include the actual monthly payroll deduction amount on the employee's paycheck.
3. Ensure that its employee payroll files include a signed authorization form and a salary reduction agreement, as applicable, for each voluntary deduction in the payroll system.
4. Provide proper oversight of its third party administrator.
5. Consider completing a more thorough review of all employee deductions.

Appendices

Appendix A

Sample Forms

SADDLEBACK VALLEY UNIFIED SCHOOL DISTRICT CLASSIFIED TIME CARD

II.2.2.

NAME (Please Print) _____ **1**

Last First M

Employee ID Number _____ **2**

Job Title _____ **3**

Budget Code (One per Card) _____ **4**

Pay Period From _____ **5** To _____ Location _____ **6**

DATE	HOURS*	DATE	HOURS*
7	8	7	8
*See Conversion Table – Minutes to Tenths of an Hour on Back of card		Total	9

Employee _____ **10** Supervisor _____ **11**

Signature Signature

PAYROLL USE ONLY

INSTRUCTIONS FOR COMPLETION

- | | | |
|-----|-------------------------|---|
| 1. | Name: | Employee's name |
| 2. | Employee ID Number: | Employee's 5-digit PIN (ID) Number |
| 3. | Job Title: | Title of Extra Duty Pay Assignment |
| 4. | Budget Code: | Indicate valid budget code |
| 5. | Pay Period From/To: | Indicate the pay period work was performed (see Due Dates For Classified Payroll) |
| 6. | Location: | Name of school site or department |
| 7. | Date: | Indicate the Month and Day service was performed |
| 8. | Hours: | Indicate the number of hours worked (Use Conversion Table) |
| 9. | Total: | The total number of hours to be paid |
| 10. | Employee's Signature: | Signature of employee |
| 11. | Supervisor's Signature: | Authorized signature of employee's Supervisor or Administrator |

NOTE: Classified Time Cards must be submitted to the Payroll Department by the established Due Dates For Classified Payroll. Late time cards will be paid the following pay period.

August 2013

Classified Time Card

SADDLEBACK VALLEY UNIFIED SCHOOL DISTRICT
Mission Viejo, California

OCDE - SUMMER DEFERRAL PROGRAM
Certificate Employees Only

TO: SVUSD Payroll Department
RE: OCDE - Summer Deferral Program

Please make the following changes to my salary payment:

_____ From 10-month pay to 12-month pay

_____ From 12-month pay to 10-month pay
(This will generate a payoff of all summer deferral monies that are on deposit.)

- I understand this request to start or stop the OCDE - Summer Deferral Program will remain in effect until changed by my submission of a new authorization form.
- I understand this form does not change payroll deductions I may have established with the SchoolsFirst Federal Credit Union (formerly OCTFCU).

Print Name

Employee ID Number

Signature

Date

Revised 10-2007

H:\My Documents\Proceduers\Summer Deferral Program Form.doc

NOTICE OF RESIGNATION OR RETIREMENT

To: {Assistant Superintendent, Personnel Services}

This letter is to inform the {name of school district}, that I will be resigning from my position:

{name of position _____}

The reason for my resignation is:

{_____}

My last day of employment will be:

☐

The last day of school for the current school year

☐

Other date {____date____}

My CalSTRS retirement date will be: {____date____}

My CalPERS retirement date will be: {____date____}

Print Name

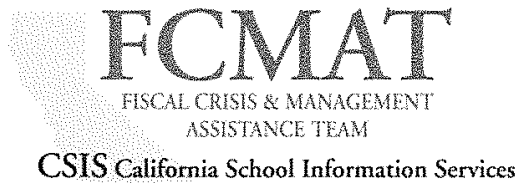
School/Worksite/Position

Signature

Date

Appendix B

Study Agreement



**FISCAL CRISIS & MANAGEMENT ASSISTANCE TEAM
STUDY AGREEMENT
June 28, 2013**

The Fiscal Crisis and Management Assistance Team (FCMAT), hereinafter referred to as the team, and the Bellevue Union School District, hereinafter referred to as the district, mutually agree as follows:

1. BASIS OF AGREEMENT

The team provides a variety of services to school districts and county offices of education upon request. The district has requested that the team assign professionals to study specific aspects of the Bellevue Union School District's operations. These professionals may include staff of the team, county offices of education, the California State Department of Education, school districts, or private contractors. All work shall be performed in accordance with the terms and conditions of this agreement.

In keeping with the provisions of Assembly Bill 1200, the county superintendent will be notified of this agreement between the district and FCMAT and will receive a copy of the final report. The final report will also be published on the FCMAT website.

2. SCOPE OF THE WORK

A. Scope and Objectives of the Study

The scope and objectives of this study are as follows:

The primary focus of this review is to provide the district with reasonable assurance based on the testing performed that adequate management controls exist in the payroll department. Management controls include the processes for planning, organizing, directing, and controlling program operations, including systems for measuring, reporting, and monitoring performance. The payroll process is generally a high-risk audit area in which potential fraud issues such as fictitious employees or unauthorized misappropriation of assets may be detected. Specific objectives will include evaluating the policies, procedures, and internal controls related to the payroll department.

The FCMAT study team will sample test data from the current and one prior fiscal year and include a review of earnings, extra earnings, deferred net pay (10-month employees) and benefits. Testing for this review will be based on sample selection and will not include the testing of the complete payroll records. Sample testing and review results are intended to provide reasonable, but not absolute assurance about the accuracy of timekeeping and payroll data. The objective of the report will be to provide findings regarding the efficiency and accuracy of the Payroll Department data and make recommendations for the following:

- 1) Provide reasonable assurance that payroll transactions are entered by properly authorized personnel and that the transactions are accurately summarized for salary and benefit compensation. The FCMAT study team will obtain the data and information necessary to test various payroll records. This component will evaluate the effectiveness and efficiency of departmental payroll processing operations, which include new hires, ghost employees, terminations, salary adjustments, overtime/comp time and leave time.
- 2) Provide reasonable assurance that access to the timekeeping and payroll operating system (Escape) is properly secured from unauthorized changes and that proper internal control systems exist for data transfers between the Payroll and Human Resources departments.
- 3) Evaluate the division of labor and segregation of duties between classified and management employees in the Payroll Department.
- 4) Review the Payroll Department workflow and staffing.
- 5) Provide recommendations regarding the feasibility of implementing a supplemental payroll for substitutes and hourly employees.
- 6) Determine the feasibility of eliminating the certificated split payroll in December and January.
- 7) Review the records processing procedures and file management protocol.
- 8) Evaluate desk manuals and procedures for each departmental employee.
- 9) Review the integration and use of position control with the Payroll and Personnel departments.
- 10) Verify that the district complies with the State Teachers Retirement System of California (STRS) regarding employee/employer contributions and reporting.

- 11) Verify that the district complies with the California Public Employees Retirement System (CalPERS) regarding employee/employer payments and reporting.
- 12) Review the unemployment compensation process to ensure that the district is complies with the payment and reporting process for the California State Office of Unemployment Compensation.
- 13) Ensure that the federal and state withholding allowances claimed by district employees agreed with the withholding allowances entered in the payroll system.
- 14) Review the procedures related to deductions and payments to vendors, including but not limited to insurance carriers.

B. Services and Products to be Provided

1. Orientation Meeting - The team will conduct an orientation session at the district to brief district management and supervisory personnel on the team's procedures and the purpose and schedule of the study.
2. On-site Review - The team will conduct an on-site review at the district office and at school sites if necessary.
3. Exit Report - The team will hold an exit meeting at the conclusion of the on-site review to inform the district of significant findings and recommendations to that point.
4. Exit Letter – Approximately 10 days after the exit meeting, the team will issue an exit letter briefly summarizing significant findings and recommendations to date and memorializing the topics discussed in the exit meeting.
5. Draft Reports - Electronic copies of a preliminary draft report will be delivered to the district's administration for review and comment.
6. Final Report - Electronic copies of the final report will be delivered to the district's administration and to the county superintendent following completion of the review. Printed copies are available from FCMAT upon request.
7. Follow-Up Support – If requested, FCMAT will return to the district at no cost six months after completion of the study to assess the district's progress in implementing the recommendations included in the report. Progress in implementing the recommendations will be documented to the district in a FCMAT management letter.

3. PROJECT PERSONNEL

The study team will be supervised by Anthony L. Bridges, CFE, Deputy Executive Officer, Fiscal Crisis and Management Assistance Team, Kern County Superintendent of Schools Office. The study team may also include:

- A. Julie Anvil, CPA FCMAT Fiscal Intervention Specialist, Project Leader*
- B. To be determined FCMAT Consultant*
- C. To be determined FCMAT Consultant*

Other equally qualified staff or consultants will be substituted in the event one of the above individuals is unable to participate in the study.

4. PROJECT COSTS

The cost for studies requested pursuant to E.C. 42127.8(d)(1) shall be as follows:

- A. \$500 per day for each team member while on site, conducting fieldwork at other locations, preparing and presenting reports, or participating in meetings. The cost of independent consultants will be billed at the actual daily rate based on the provisions of Education Code section 84041.
- B. All out-of-pocket expenses, including travel, meals and lodging.
- C. The district will be invoiced at actual costs, with 50% of the estimated cost due following the completion of the on-site review and the remaining amount due upon the district's acceptance of the final report.

Based on the elements noted in section 2 A, the total estimated cost of the study will be \$12,000.

- D. Any change to the scope will affect the estimate of total cost.

Payments for FCMAT's services are payable to Kern County Superintendent of Schools - Administrative Agent.

5. RESPONSIBILITIES OF THE DISTRICT

- A. The district will provide office and conference room space during on-site reviews.
- B. The district will provide the following if requested:
 - 1. A map of the local area.
 - 2. Existing policies, regulations and prior reports that address the study scope.
 - 3. Current or proposed organizational charts.
 - 4. Current and two prior years' audit reports.
 - 5. Any documents requested on a supplemental list. Documents requested on the supplemental list should be provided to FCMAT only in electronic format; if only hard copies are available, they should be scanned by the district and sent to FCMAT in electronic format.
 - 6. Documents should be provided in advance of field work; any delay in the receipt of the requested documents may affect the start date of the project. Upon approval of the signed study agreement, access will be provided to FCMAT's online SharePoint document repository, where the district will upload all requested documents.
- C. The district's administration will review a preliminary draft copy of the report resulting from the study. Any comments regarding the accuracy of the data presented in the report or the practicability of the recommendations will be reviewed with the team prior to completion of the final report.

Pursuant to EC 45125.1(c), representatives of FCMAT will have limited contact with pupils. The district shall take appropriate steps to comply with EC 45125.1(c).

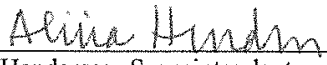
6. PROJECT SCHEDULE

The following schedule outlines the planned completion dates for different phases of the study:

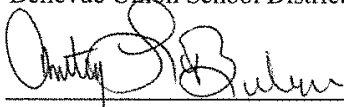
Orientation:	June/July 2013
Staff Interviews:	to be determined
Exit Meeting:	to be determined
Preliminary Report Submitted:	to be determined
Final Report Submitted:	to be determined
Board Presentation:	to be determined, if requested
Follow-Up Support:	if requested

7. CONTACT PERSON

Name: Susie Raymond, Director of Fiscal Services
Telephone: (707) 542-5197
Fax: (707) 542-6127
E-mail: fraymond@bellevueusd.org

 6/28/13

Alicia Henderson, Superintendent
Bellevue Union School District
Date

 June 28, 2013

Anthony L. Bridges, CFE
Deputy Executive Officer
Fiscal Crisis and Management Assistance Team
Date