City Auditor's Office

Charter School Authority Payroll Process Audit

Report Issued: April 6, 2023

Audit Report No. 22-05

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TO: Mayor Gunter and Council Members

FROM: Andrea R. Russell, City Auditor

DATE: April 6, 2023

SUBJECT: 22-05 Charter School Authority Payroll Process Audit

The City Auditor's Office has completed the audit of the Charter School Authority (CSA) payroll process. The audit was conducted in conformance with Generally Accepted Government Auditing Standards by the authority granted through City Ordinances 28-02 and 79-10.

We would like to express our sincere appreciation to the Charter School and the City's Financial Services Department management and staff for the courtesy, cooperation, and proactive attitude extended to the team members during the audit. If you have any questions or comments regarding this audit, please contact Andrea Russell at 242-3380 or Joe Devone at 242-3689.

C: Jacqueline Collins, Superintendent
Dr. Guido Minaya, Governing Board Chair
Michael Ilczyszyn, Interim City Manager
Connie Barron, Assistant City Manager
Dolores Menendez, City Attorney
Kimberly Bruns, City Clerk
Mark Mason, Financial Services Director
Audit Committee

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EXECUTIVE SUMMARY

The City Auditor's Office conducted a performance audit of the CSA's payroll process. This audit was not included in the City Auditor's approved Audit Plan. It was conducted at the request of the Financial Services Director.

Based on the test work performed and the audit recommendations noted below, we concluded overall that payroll policies and procedures need improvement to ensure accurate processing of CSA employees' pay. We noted the following areas need improvement:

- Policy and procedures standardization
- Payments to terminated employees
- Controls over payroll processes

For further details on these findings and recommendations, see the Findings and Recommendations section. While we noted controls need improvement, no material control deficiencies were noted.

BACKGROUND

Payroll for administrative and teaching staff is processed individually at each of the four CSA locations (two elementary schools, one middle school, and one high school). The CSA follows NEOLA guidelines and their own internal policies and procedures for processing payroll. Teachers and administrative staff are contract employees. Pay rates and paid time off amounts are included in individual contracts. Teachers receive 26 paychecks a year although they are not physically at school for the entire 12 months. Overtime occurs throughout the year but is most frequent at the beginning of the school year for transportation, and kindergarten enrollment. Overtime requests require the pre-approval of individual school principals as well as the Superintendent.

Bi-weekly, managers, principals, and the superintendent approve payroll, which for hourly employees is tracked on time sheets and beginning in August 2022, time clocks and timecards. Requests for time off must be submitted via a paper Request for Leave (RFL) form. RFLs are accumulated by school secretaries, signed by principals, then scanned, and emailed to City Payroll personnel for inclusion in the payroll file. Once adjustments are made and the file is complete with City Payroll, it is emailed to the superintendent, principals, and Human Resources staff at the CSA for approvals. City Payroll requires the approvals before importing the information into the City's payroll system for processing. Payroll for the CSA totaled $13,825,811 and $14,344,239, respectively, for School Year (SY) 21 and SY22.

AUDIT OBJECTIVE

The audit objective is to determine whether controls are in place for all CSA payroll and timekeeping processes.

STATEMENT OF AUDITING STANDARDS

We conducted this performance audit in accordance with Generally Accepted Government Auditing Standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

FINDINGS AND RECOMMENDATIONS

FINDING 2022-01 CSA Handbooks Need Standardization for Payroll Procedures
Rank: High

Condition:
Policies and Procedures are inconsistent among individual school staff handbooks
Currently, there are no centralized formal policies and procedures across the Charter Schools. Based on walkthroughs conducted during audit planning, we noted each school location has its own Staff Handbook which details policies for school staff. During our review of the individual Staff Handbooks, we noted multiple differences across handbooks regarding policies directly related to the payroll process. Differences in the payroll process included: definition of workday hours; holiday leave; request for leave approval; live checks; add-pay; and flextime. These are general areas that should be consistent throughout the school system.[1].

Timeclock Policies and Procedures
Timeclocks were installed at each of the Charter Schools on August 2, 2022. Prior to the start of the school year, Financial Services Payroll employees visited each school to explain the process of using timeclocks and answer any questions. In addition, emails and communications were periodically sent out to employees discussing timeclock procedures; however, as of the date of this audit, schools have not incorporated formal timeclock policies and procedures in the Staff Handbooks.

Criteria:
- CSA individual location Staff Handbooks

[1] We noted other areas in the school handbooks that differed between locations such as: Employee Evaluations, Confidentiality, and Parent Rights

Cause:

- Inconsistent and incomplete policies and procedures

Effect:

- Inconsistent application of payroll and timeclock processes
- Potentially inaccurate payroll information

RECOMMENDATION:

2022-01: Update the individual Staff Handbooks to include payroll procedures that are consistent between all locations and incorporate new timeclock procedures.

Management Response and Corrective Action Plan:

2022-01 Select one of these boxes: ☒ **Agree** ☐ **Partially agree*** ☐ **Disagree***
***For partially agree or disagree a reason must be provided as part of your response:**

2022-01 Standardization of payroll process policies and procedures (to include new timeclock procedures) will be implemented across all charter school's handbooks by January 13th, 2023.

2022-01 **Management Action Plan Coordinator:** CSA Superintendent

2022-01 **Anticipated Completion Date:** 01/13/2023 *This recommendation was implemented during the completion of the audit.*

FINDING 2022-02 Terminated Employees are Paid Inaccurately
Rank: High

Condition:

CSA policies and procedures are located in several separate Word documents for payroll processes relating to terminated employees. During our testing we noted several instances where these policies were not followed resulting in inaccurate payouts to terminated employees. CSA employees may be entitled to additional pay outs for balance of leave hours and separation pay upon termination. CSA policies state:

- Employees with accrued leave balances who provide 30 days' notice of separation, are entitled to payout of their leave hours.
- Employees terminated during the school year are entitled to separation pay, due to the annualization of their salary and applicable additional pay (add pay) for licenses or certifications not required by job descriptions. Teachers are paid a lower hourly rate during the school year so they can be paid through the summer; therefore, they must be paid out to cover their contracted rate.

For testing, we judgmentally selected 20 terminated employees for the 2021-2022 school year and five[2] terminated employees for the 2022 school year through 09/23/2022. Our testing determined the following:

- 15 of the 25 employees selected for testing were teachers. Of those 15 teachers, five were eligible to receive summer checks.[3] Four out of the five (80%) teachers were paid one extra summer check.
- Six out of the 15 teachers were eligible for separation pay. One out of the six (17%) did not receive the separation pay for their contract payout. In addition, six out of six (100%) did not receive payout for their add pays.
- All leave hour balance payouts for eligible employees tested were correct.

Criteria:

- Charter School HR Policy and Procedures
- Charter School Payroll Policy and Procedures
- NEOLA Policies
- Charter School Employee Contract

Cause:

- Insufficient training
- Non-compliance with policy and procedures
- No review process of payouts prior to payment

Effect:

- Inaccurate payment of salaries
- Loss of funds

RECOMMENDATIONS:

2022-02a: Combine the multiple policies and procedures for employee payroll processing into one manual. The manual should include the details for processing all amounts owed to terminated employees.

2022-02b: Establish a review process for terminated employee final paychecks to ensure accuracy of payments.

Management Response and Corrective Action Plan:

2022-02a Select one of these boxes: ☒ **Agree** ☐ **Partially agree*** ☐ **Disagree***
***For partially agree or disagree a reason must be provided as part of your response:**

2022-02a CSA will combine policies and procedural "how-to"s for employee payroll processing of terminated employees and will add to the HR Manual.

2022-02a **Management Action Plan Coordinator:** CSA Superintendent

[2] 100% of population for 2022 school year through 09/23/2022.

[3] Teachers only receive summer checks if they work the entire school year. The remaining eight teachers in our sample either terminated before the school year began or during the school year.

2022-02a **Anticipated Completion Date:** 06/30/2023

2022-02b Select one of these boxes: ☒ **Agree** ☐ **Partially agree*** ☐ **Disagree***
***For partially agree or disagree a reason must be provided as part of your response:**

2022-02b Our initial interpretation was add-pays should not be payable after termination. However, upon further review, we found terminated employee's add pays will be recalculated to properly reflect the time period actually worked, include annualization amounts, and will be properly paid out upon termination. CSA HR will develop a written review process to be added to the HR manual for terminated employees to ensure accuracy of payments.
2022-02b **Management Action Plan Coordinator:** CSA Superintendent
2022-02b **Anticipated Completion Date:** 06/30/2023

FINDING 2022-03 Controls Over Payroll Process Need Improvement
Rank: High

Condition:
During our audit we selected a random sample of 120 paychecks, 60 for FY21 and 60 for FY22. We tested the controls in place to determine if timesheets accurately reflected time worked, and if leave time and add pay were accurately paid. Based on our testing we concluded controls are in place; however, monitoring of these processes needs improvement.

Timesheet Testing
Beginning in August 2022, the CSA implemented the use of time clocks and timesheets to record hours worked. Previously, employees only submitted timesheets they completed during the pay period. Prior to implementation of timeclocks, employees in certain hourly administrative positions, such as Secretaries and Information Specialists, did not submit timesheets; however, timeclocks eliminated this issue. From our random sample of 120 paychecks, we identified 37 paychecks for FY21 and 31 paychecks for FY22 for hourly employees. Based on our testing we noted the following:

FY21		
		Exception Percent
Total Sample	37	16%
Timesheets not on file	6	
Timesheets available for hours testing	31	6%
Timesheet hours do not agree to Paystub	2	

FY22		
		Exception Percent
Total Sample	31	10%
Timesheets not on file	3	
Timesheets available for hours testing	28	7%
Timesheet hours do not agree to Paystub	2	

For the period after the installation of timeclocks, we tested three[4] timecards and found one (33%) timecard where the hours did not agree with the employee's timesheet.

Leave Time Testing
According to CSA policy, hourly and salary employees are required to submit an RFL when requesting time off. We tested a sample of 14 paychecks from FY21 for employees with paid leave and one (7%) did not have an RFL on file. In this specific situation, the employee was out on FMLA and received donated leave hours. The time was incorrectly coded as regular hours and the donated leave time was not deducted. This resulted in the employee discharging the donated hours at a later date.

Of the 13 RFLs available for testing, there were two (15%) where the hours requested off were less than the number of hours paid for leave time per the paystub. Five of the employees tested were hourly and required to submit timesheets. Two of the five (40%) timesheets did not agree to the RFL on file. We noted no exceptions for our FY22 testing.

Add Pay Testing
Employees receive add pay according to schedules set by the CSA. At this time, rates are determined by the Superintendent throughout the school year with no formal approval process of the schedule. CSA administrative staff completes a Status Change Notice (SCN) to include the add pay with the employee's salary throughout the school year. Since these adjustments are processed after the first paycheck and start of school year, employees receive retroactive pay for the amounts added. Although we did not test specifically for this attribute, we noted the majority of SCNs we reviewed included amounts for "retro pay". The extent of manual pay adjustments throughout the year creates an opportunity for incorrect payments.

We tested a total of 35 and 45 add pays for FY21 and FY22, respectively. During our testing, we noted add pay amounts did not agree to the CSA schedules provided for four (11%) add pays in FY21 and four (9%) add pays in FY22. Examples of these exceptions included:

- One employee receiving custom amounts for "Additional Teacher Duty" add pay not listed on the schedule
- Bilingual" add pay paid at an old rate, which did not agree with current schedules
- "Notary" add pay not listed on the add pay schedule
- One employee received multiple stipends for differing amounts that were for various coaching assignments, but all were paid under one payroll code ("HS Assist Football Coach)."

We were also unable to locate a signed and approved SCN for two (6%) FY21 add pays and two (4%) FY22 add pays. One of these exceptions included an SCN for "Notary" which was incorrectly coded with no expiration. Notary licenses expire every four years.

Criteria:

- RFL forms
- SCNs

[4] Due to the timing of implementation of time clocks and the audit scope, only three hourly employees were included in our random sample.

- Employee timesheets and timecards
- NEOLA policies
- Add pay schedules

Cause:
- Non-compliance with policies and procedures
- Non-compliance with add pay schedules
- Lack of review and reconciliation prior to processing payroll

Effect:
- Incorrect payments to employees
- Hours worked not recorded accurately
- Inaccurate overtime payment
- Overdraft of leave balance

RECOMMENDATIONS:
2022-03a: Improve controls over timekeeping to ensure timecards, timesheets, and RFLs are accurate by developing a review process to evaluate payroll adjustments including leave time, overtime, retroactive pay, etc.

2022-03b: Improve controls over CSA add pays by obtaining Governing Board approval of add pay schedules as part of the annual budget process.

2022-03c: Follow City processes for completion of SCNs for add pay amounts.

Management Response and Corrective Action Plan:

2022-03a Select one of these boxes: ☒ **Agree** ☐ **Partially agree*** ☐ **Disagree***
***For partially agree or disagree a reason must be provided as part of your response:**

2022-03a New payroll procedures, already established in December by Payroll and Superintendent are outlined in each school's handbook and the system wide policies and procedures manual. We will incorporate any new processes identified in the audit.

2022-03a **Management Action Plan Coordinator:** CSA Superintendent

2022-03a **Anticipated Completion Date:** 06/30/2023

2022-03b Select one of these boxes: ☒ **Agree** ☐ **Partially agree*** ☐ **Disagree***
***For partially agree or disagree a reason must be provided as part of your response:**

2022-03b Governing Board will approve the Add-Pay Schedule each year at a regular governing board meeting before the annual budget is adopted. Our budget process takes us through June for revisions. This schedule will either be approved in April or May depending on how our budget rolls out.

2022-03b **Management Action Plan Coordinator:** CSA Superintendent.

2022-03b **Anticipated Completion Date:** 06/30/2023.

2022-03c Select one of these boxes: ☐ **Agree** ☒ **Partially agree*** ☐ **Disagree***
***For partially agree or disagree a reason must be provided as part of your response:** CSAs has a process for completion and approval of Add-pay amounts.

2022-03c CSA will review the City's SCN process and duplicate the processes that are applicable to our manual process.
2022-03c **Management Action Plan Coordinator:** CSA Superintendent.
2022-03c **Anticipated Completion Date:** 06/30/23

SCOPE AND METHODOLOGY

Based on the work performed during the planning and the assessment of risk, the audit covers the CSA payroll process for the period of October 1, 2020, to September 23, 2022. Testing was performed using the CSA's Staff Handbooks, NEOLA guidelines, and the CSA's payroll policies and procedures that were in place during the scope of the audit.

Original records, as well as copies, were used as evidence and verified through physical examination. Sample size and selection were based on the CAO Sample Methodology. To gain a better understanding of the processes followed, we walked through processes with CSA Administration and Financial Services Payroll. We utilized random sampling to select samples for timesheets, leave time, add pays; and judgmental sampling to select samples for leave time payouts and separation payouts. We analyzed the sampled items to test attributes to support the audit objective and determine if controls are in place to accurately pay CSA employees.

In order to achieve the audit objective, we used data from Kronos which is tested by the external auditors as part of the Annual Comprehensive Financial Report. Based on the results of their procedures, no additional data reliance testing was deemed necessary.

Unless specifically stated otherwise, based on our selection methods and testing of transactions and records, we believe that it is reasonable to project our results to the population and ultimately draw our conclusions for testing, findings, and recommendations on those results. Additionally, for proper context, we have presented information concerning the value and/or size of the items selected for testing compared to the overall population and the value and/or size of the exceptions found in comparison to the items selected for testing.

APPENDIX A

Finding Classification
Findings are grouped into one of three classifications: High, Medium or Low. Those findings that are categorized as low are not included in the report but rather are communicated separately to management. Classifications prioritize the findings for management to address and also indicate the level of testing required to determine if a finding's Corrective Action Plan is fully implemented in accordance with recommendations and Management's Response.

High: A finding that is ranked as "High" will have a significant impact on the organization. It is one that *prevents* the achievement of a substantial part of significant goals or objectives, or noncompliance with federal, state or local laws, regulations, statutes or ordinances. Any exposure to loss or financial impact for a High finding is considered *material*. Examples include direct violation of City or Department policy, blatant deviation from established policy and procedure, such as actions taken to circumvent controls in place, material non-compliance with federal, state or local laws, regulations, statutes or ordinances, or an area where significant cost savings could be realized by the Department or the City through more efficient operations.

High findings require immediate management attention and should take management's priority when considering implementation for corrective action.

Medium: A "Medium" finding is one that *hinders* the accomplishment of a significant goal or objective or non-compliance with federal, state or local laws, regulations, statutes or ordinances, but can't be considered as preventing the accomplishment of the goal or objective or compliance with federal, state or local laws, regulations, statutes or ordinances. Exposure to loss or potential or actual financial impact is *significant but not material* to the Department or City. Examples include lack of monitoring of certain reports, insufficient policies and procedures, procedure in place or lack of procedure that can result in *potential* noncompliance with laws and or regulations.

Medium findings require management attention within a time frame that is agreed upon by the Department and the City Auditor. Priority for implementation of management's corrective action should be considered in light of other High or Low findings.

Low: A "Low" finding is one that warrants communication to management but is one that isn't considered as hindering the accomplishment of a significant goal or objective and isn't causing noncompliance with federal, state or local laws, regulations, statutes or ordinances. Financial impact or risk of loss is minimal to none; however, low findings can *hinder the effectiveness or quality of department operations and thus are communicated to management separately. Low ranked findings are not included in the final audit report.*

The City Auditor's Office will not follow up on the status of Low findings communicated to Management.