



Office of Internal Audit

Report to the Principal, Lewis  
Middle School

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June, 2017

# **LEWIS MIDDLE SCHOOL**

Audit of Additional  
Compensation Payments for  
the Period 1 July 2010  
through 30 June 2015

## **NOTICE**

Statements that managerial practices need improvements, as well as other conclusions and recommendations in this report, represent the opinion of the Office of Internal Audit. Determinations of corrective action to be taken will be made by the appropriate San Diego Unified School District officials.



# Highlights

Highlights of Report 17-13, a report to the Principal, Lewis Middle School

## Lewis Middle School

### Audit of Additional Compensation Payments for the Period 1 July 2010 through 30 June 2015

#### Why OIA Did This Audit

The Human Resources Division requested the audit as a result of a complaint they received.

#### What OIA Recommends

Our report includes two recommendations addressed to the Principal, Lewis Middle School (Lewis). These recommendations included:

- (1) Establishing a system to ensure that all requests for additional compensation were pre-approved as required by the administrative procedures; and
- (2) Ensure that Lewis retains all original timecards for any additional compensation paid to Lewis staff or staff temporarily assigned to Lewis.

The Principal in his response to a draft version of this report generally concurred with our recommendations and stated that corrective actions would be in place prior to the end of August 2018.

#### What Did OIA Find

OIA found that the Lewis system of internal controls for time and labor charges and additional compensation provides a reasonable assurance that: (1) SDUSD assets and resources are adequately safeguarded, (2) the additional compensation reporting provides reliable data, and (3) Lewis complies with the applicable statutes, regulations, policies, and administrative procedures.

The Lewis Principal effectively uses the civic center funding to support the school's support staff and also ensures the school's continuity of operations and of services provided to the students and staff. The school's appropriated funds budget does not have sufficient resources to support the staff on a full time basis. The civic center funds provide the additional resources to ensure full time positions.

OIA identified two internal control weaknesses that impact Lewis' compliance with the District's APs. The first weakness is the absence of pre-approvals of the controllable additional compensation requests by the Principal. The second weakness identified that Lewis did not retain the timecards necessary to support a summer school program held during fiscal year 2012. The timekeeper believed that the documents had been sent to an office responsible for the operation of the program. However, the District's AP requires the original documentation be retained at the school's location.



15 June 2017

Brad Callahan  
Principal  
Lewis Middle School  
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This report presents the results of the Office of Internal Audit's audit of the additional compensation payments for the staff of the Lewis Middle School (Lewis) for the period 1 July 2011 through 30 June 2015. In addition to presenting the results of the audit we have included recommendations to address observed weakness in the system of internal control and documentation of the additional compensation costs.

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## Background

OIA for the purpose of this audit, defined additional compensation as payments provided to an employee to perform services outside of their normal work hours. Additional compensation may be governed by the collective bargaining agreements (CBA) that the San Diego Unified School District (District or SDUSD) maintains with its employee unions.

Additional compensation payments are funded through a school's appropriated funds operating budget, grant funds and other special revenues, and from the school's civic center activities. During the period of our audit, Lewis used funds from all of these sources to fund its additional compensation payments.

The District's time and labor (T&L) documentation, accounting, and reporting policies govern the process for the additional compensation payments.

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## Objectives, Scope

The audit's objectives were to:

- verify the Lewis systems of internal control provide a reasonable assurance that the District's assets are safeguarded and the additional compensation reporting provides reliable data regarding the spending; and
- determine the extent of compliance with the applicable laws, regulations, policies and administrative procedures (AP) for payroll and the adequacy and reliability of documentation of additional compensation costs.

This audit was requested by the Human Resources Division as the result of a complaint they received. Their request included the examination of the additional compensation paid by Lewis during the period 1 July 2010 through 30 June 2011, fiscal year 2011. At the

time of our audit, the payroll records supporting the additional compensation for fiscal year 2011 were not available.

To meet the audit's objectives we:

- reviewed the District's APs and other time and labor documentation governing the reporting of compensable hours;
- obtained a detailed understanding of the District and Lewis' system of internal controls for T&L and the authorization and payment of additional compensation to the staff;
- extracted the additional compensation payments to the Lewis staff for our audit period and evaluated the data to ensure that it was sufficiently reliable; and
- selected, from the extracted T&L data, a random sample of transactions for comparison with the timecards, and other source documentation maintained by the Lewis timekeeper.

As part of our work to meet the audit's objectives we performed limited testing of the data extracted from the District's T&L system. Further, we relied on our prior work in the reviews of T&L charges at other schools. Based on our review of the extracted data and our prior knowledge of the T&L system we consider this data sufficiently reliable to meet the objectives of this audit.

This performance audit was performed in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain a reasonable basis for our findings and conclusions, based on the audit's objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions.

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## Prior Audit and Review Coverage

During the past five years, OIA issued several review and audit reports that solely addressed the time and labor reporting practices (including additional compensation) at specific schools. Additionally other reports titled "Selected Financial Operations" included testing of and reporting on T&L transactions. These reports are available on the District's webpage <https://www.sandiegounified.org/audit-reports>.

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## Results

The Lewis system of internal controls for T&L charges, including additional compensation, provides a reasonable assurance

- the District's assets and resources are safeguarded and the additional compensation reporting provides reliable data regarding the expenditure of these funds; and
- of compliance with the applicable statutes, regulations policies, and APs for T&L and the adequacy and reliability of documentation of additional compensation costs.

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***Utilization of Civic Center Funds to Support Staff Costs***

The Lewis Principal and staff, through their contacts within the local community, generate a significant amount of civic center funds<sup>1</sup> for use by the school. The civic center funds are significant to the school's operating budget methodology and utilization. These funds directly support staffing levels and projects that are not supported with appropriated or special revenue funds.

For the past several years, the Principal used civic center funds to provide supplemental funding for Lewis' clerical and support staff positions. The appropriated funds budget did not provide sufficient funding for the clerical and support positions at a 1.0 full-time equivalent position (FTE). At Lewis these positions were funded at 0.50 FTE or less. To ensure the staffing continuity and the provision of necessary full time support services to the students and Lewis' staff; the Principal authorized the use of civic center funds to supplement the appropriated funds budgets. These budget and spending practices allowed the clerical and support staff to request and obtain "extra pay" for the hours worked beyond the time included in the appropriated funds budget.

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***Weaknesses in the System of Internal Control Impacted Lewis' Compliance***

We identified two weaknesses in the internal controls. These weaknesses impacted Lewis' compliance with requirements for the pre-approval of controllable additional compensation hours and retention of documentation to support T&L costs. We do not consider these weaknesses to be a material weakness or significant deficiency<sup>2</sup> in the control system, but they warrant management's attention.

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<sup>1</sup> AP 9205; *Civic Center Use of Buildings, Grounds, and Equipment*; 30 June 2016, § C.5.

<sup>2</sup> A deficiency in internal control exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions to prevent, detect, and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control over time and labor and additional compensation costs such that there is a reasonable possibility that a material misstatement of the Lewis Middle School financial reports would not be prevented, detected, or corrected on a timely basis. A significant deficiency is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

The first weakness is the absence of pre-approvals for additional compensation for the certificated staff and the classified staff. These pre-approvals are required for all non-emergency additional compensation by AP 7236<sup>3</sup> and AP 7426<sup>4</sup> for certificated and classified staff respectively. Obtaining a pre-approval for these additional costs before they are incurred is a best business practice.

The second weakness identified was the absence of documentation for additional compensation costs incurred during a summer school program operated during fiscal year 2012. The timecards supporting the payment of the staff were sent to a “grants office” for retention. However, the work was performed and approved by the staff assigned to Lewis for the program. The timecards for this period were unable to be located. As a result Lewis was unable to provide a reasonable assurance that the charges for the program were appropriate, and adequately supported by timecards or other time records.

### *Pre-approval of Additional Compensation*

Lewis did not maintain a system of controls to ensure that all requests for additional compensation were approved prior to the staff actually working the hours. During our fieldwork the staff and Principal did not appear to be aware of the pre-approval requirements.

The pre-approval process provides the Principal (1) with a method to control the number of staff and hours for which additional compensation will be paid; (2) ability to adjust the staff based on the project, expected student attendance, or other needs; and (3) allows the matching of cost of the staff with available funds before the actual costs are incurred.

AP 7236 and AP 7426 both explicitly require that the principal, instructional leader, or the manager with the authority over the budget to which the expense will be charged to approve the commitment of hours before any costs are incurred. With the exception of emergency overtime for classified employees, the APs do not provide an exemption for this pre-approval requirement.

Lewis has a number of on-going activities from which the staff

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<sup>3</sup> AP 7236; *Additional Hourly Compensation for Contract Teachers*; 6 January 2003; §C.3.c.

<sup>4</sup> AP 7426; *Overtime Authorization and Compensation for Classified Employees*; 14 October 1992; § C.4.a. For the purposes of this audit, OIA determined that the requirements of this procedure would apply to additional compensation. The payroll process and types of compensation provided has changed significantly since the AP was effective. In OIA’s opinion, it is not unreasonable to include other compensation in the same approval scheme as overtime compensation.

receive additional compensation, for example tutoring, afterschool activities, and Saturday School. For these repetitive activities, requiring a staff member to obtain an individual approval for each time they participated in the activity is onerous and may become a rote approval effectively negating the control. We recommend that for recurring activities the Principal provide a memorandum to the timekeeper listing: (1) the individuals receiving approval for the additional compensation; (2) the number of days per week or actual days when the compensation may be earned; (3) the maximum hours per day, event that compensation may be earned; and (4) the period of the approval, for example a grading period, calendar quarter, etc. These memorandums would be included with the payroll documentation files for the school. Use of this process would require that the Principal would only need to approve the single requests for additional compensation.

*Retention of Timecards to Support T&L entries*

AP 2600 requires that the school or central office organization to retain the timecards and other supporting documentation for the payroll at that location for a minimum of the current fiscal year and three additional fiscal years (four fiscal years in total) unless a Federal or state grant requires a longer retention period.<sup>5</sup> The procedure does not provide an exception for programs funded through grants or other sources to have the timecards forwarded to another location for processing or retention.

The Government Accountability Office in their report, *Maintaining Effective Control over Employee Time and Attendance*, states as a best practice, when information is transmitted to payroll systems or other offices for review safeguards should be in place to protect the information from unauthorized changes and alterations and a record should be generated of any changes made. The information that was changed should be reviewed and approved by an authorized official.<sup>6</sup>

Our sample included timecards from a summer school program operated by Lewis during fiscal year 2012. The current timekeeper was unable to locate the approved timecards for this program. Staff members from Lewis and other schools were assigned to Lewis for this program. The Lewis administrators were assigned to provide onsite management of this program and approve the hours worked by the staff assigned to the program. It appeared that the time and

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<sup>5</sup> AP 2600, *Payroll and Time Reporting*; 6 December 2013; § D.1.

<sup>6</sup> U.S. Government Accountability Office, formerly the U.S. General Accounting Office; *Maintaining Effective Control over Employee Time and Attendance*; Report Number: GAO-03-352G; Washington, D.C.; January 2003; accessed at: <http://www.gao.gov/products/GAO-03-352G> (last viewed 7 Jun 17).



attendance data for this program was entered into the T&L system by the Lewis staff for this program.

In our discussions with the current Lewis timekeeper regarding record retention, OIA was told that these timecards were probably sent to the District's grants office for processing and retention. According to the timekeeper, the practice allows the grants office to provide oversight of the program by monitoring the payroll charges. This practice does not comply with the AP and significantly increases the chances that documentation for charges could be misplaced or lost and that attendance data approved at Lewis may not accurately reflected in the data received by the grants office.

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## Recommendations

OIA recommends that the Principal, Lewis Middle School take the following actions:

1. Establish a system to provide pre-approvals for all additional compensation for employees.
  - a. Consideration should be given to the use of block approvals (multiple staff, days services are performed, hours, for an established time period [semester, calendar quarter, etc.] for additional compensation that is provided on a continuing basis for example certificated hours for tutoring, Saturday School, etc. and for classified staff for "extra" time and custodial duties associated with civic center activities. The memorandums, approval forms, etc. are included with the time and labor documentation for the appropriate periods.
  - b. With the timekeeper establish a pre-approval system for the limited or one time requests for additional compensation. Evidence of the pre-approval and date approved should be included on the face of the timecard or in a memorandum or other approval documentation attached to the appropriate timecard.
2. Ensure that timekeeper retains the original timecards for all activities where additional compensation is paid to Lewis staff or staff from other schools on temporary assignment to Lewis. If necessary, a grant manager or other District grant staff should only receive a copy of the original documentation.

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## Lewis' Response and OIA's Comments

The Principal provided a response to a draft version of this report (see Appendix I). This response generally concurred with the findings and recommendations. A corrective action plan for each of the recommendations was included and it meets the intent of the recommendations. The corrective actions are expected to be complete prior to 30 August 2017.

OIA provided this report to the Board of Education, Audit and Finance Committee, Superintendent of Public Education, General Counsel, and Chief of Staff. In addition the report will be available on the District's webpage at <https://sandiegounified.net/audit-reports>.

Should you have questions on this report or our work, please contact John Cashmon at [cashmon@sandi.net](mailto:cashmon@sandi.net) or 619.725.5696.

A handwritten signature in blue ink, appearing to read "John M. Cashmon".

John M. Cashmon, CIA, CGFM, CIGA  
Director, Internal Audit

## Appendix I: Comments from the Principal, Lewis Middle School

June 12, 2017

To: Mr. John Cashmon, Director of Internal Audit

From: Brad Callahan, Lewis Middle School Principal


In response to the first recommendation to establish pre-approvals for all additional compensation for employees:

- 1) We plan to implement block approvals as recommended.
- 2) The estimated completion date will be before additional compensation begins each school year, so for the 2017-18 school year, the block approvals will be in place by August 23, 2017.
- 3) The individuals responsible are the principal, who will write and sign the block pre-approval, and the timekeeper, who will file the signed pre-approval with timekeeping records.

For additional compensation that is not covered by the block pre-approval as described above, we will require employees to obtain pre-approval by requesting a timecard beforehand. The timecard will have a note/date of pre-approval, and be given to the employee thus.

In response to the second recommendation to ensure timekeeper retains original timecards for activities where additional compensation is paid to Lewis staff or staff from other schools on temporary assignment to Lewis.

- 1) We plan to make copies of timecards being sent to any District Office (including The Office of Extended Learning for ESY) when required, and retain originals in Lewis' timekeeping records.
- 2) The estimated completion date will be immediately after the activity is completed, so in the case of summer school (ESY) 2017, the procedure would be completed by August 18, 2017.
- 3) The ESY principal will be responsible for directing the timekeeper to make copies and retain originals to be filed in timekeeping records.

  
Principal, Lewis Middle School.  
J. Bradley Callahan