



Report to the Chief Financial Officer, Chief Human Resources Officer, the Area Superintendent – Area 4, and the Principal, Hawthorne Elementary School

June, 2015

HAWTHORNE ELEMENTARY SCHOOL

Review of Selected Financial Operations

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

Content

Letter		1
	Results in Brief	1
	Summary of Recommendations	2
	Background	3
	Objectives and Scope	4
Processing ASB Cash Receipts And Disbursements Violated Policies	Processing of ASB Cash Receipts	5
	Processing of Cash Disbursements	7
	Missing Funds from a Non-District Organization Fundraiser	8
	Recommendations	9
Non-compliance with APs Significantly Impacted Controls	Absence of Approvals of Fundraising Activities	10
	Non-District Organization Inappropriately Raised Funds	10
	Timely Review of ASB Activity Accounts Not Conducted	11
	Absence of Compliance with Accepted Business Practices	11
	Recommendations	11
Hawthorne Requires Significant Improvement in Transaction Documentation, Processing, and Approval	Timecards Not Available to Support Additional Pay Hours	13
	Controls for Leaves and Absences Were Not Functional	14
	Payroll Documentation Not Available	15
	Time Reporting Discrepancies Not Identified and Timecards Do Not Appear Reliable	16
	Documentation of ASB and P-Card Transactions Did Not Consistently Comply with Procedures	18
	Consultant Form Not Submitted	19
	Recommendations	20
Officials' Comments and Our Evaluation		21
<i>Contributor</i>		21
Appendix I	Response from the Chief Financial Officer	22
Appendix II	Response from the Principal, Hawthorne Elementary School	23
Figures	Figure 1: Sales, Cost of Sales, and Profit from Fundraiser	6
	Figure 2: Calculation of Revenue Loss for Fundraiser	6
Tables	Table 1: Summary of Questioned Costs	2
	Table 2: Inappropriate ASB Purchases	7
	Table 3: Unapproved Fundraising Activities	10
	Table 4: Inactive ASB Activity Accounts	11

Tables

Table 5: Unsupported Additional Compensation	13
Table 6: Unauthorized Additional Pay Hours and Cost	14
Table 7: Unauthorized Leaves Entered Into the Payroll System	14
Table 8: Unrecorded Additional Pay and Leave	15
Table 9: Leave Requests Not Provided	16
Table 10: Overpayment of Compensation	17
Table 11: Discrepancies in Hours Entered into T&L	17
Table 12: Disbursements without Supporting Documentation	18
Table 13: P-Card Purchases without Original Receipts	19
Table 14: Purchases without Sales/Use Tax	19
Table 15: Missing Consultant Forms	19

Abbreviations and Acronyms Used

Administrative Procedure	AP
approving official	AO
Area Superintendent, Area 4	AS-4
Associated Student Body	ASB
Board of Education	BOE
San Diego Unified School District	District
elementary school assistant	ESA
elementary school clerk	ESC
fiscal year	FY
Hawthorne Elementary School	Hawthorne
<i>Purchase Card Procedures Manual</i>	<i>Manual</i>
Mission Federal Credit Union	MFCU
Office of Internal Audit	OIA
Purchase Card	P-Card
San Diego Unified School District	SDUSD
school year	SY
Time Reporting Code	TRC



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The Area Superintendent, Area 4 (AS-4), requested that the Office of Internal Audit (OIA) conduct a review of the financial operations at the Hawthorne Elementary School (Hawthorne). The review included the Associated Student Body (ASB) Fund, the Hawthorne staff's use of the San Diego Unified School District's (SDUSD or District) purchase card (P-Card) program, and the reporting of time and labor (T&L) charges and additional pay to the District's payroll system. This review included the period 1 July 2012 through 12 September 2014. This report summarizes our work, the conditions we identified, and provides a series of recommendations to address the causes of the conditions that we cite in this report.

Hawthorne underwent two periods where the school and its staff were managed by an Acting Principal. The Acting Principal was in place from 22 January 2013 through 30 June 2013 and 21 August 2014 through 31 January 2015.

Results in Brief

The financial operations at Hawthorne, that OIA reviewed, were adversely impacted by failure to comply with the District's administrative procedures (APs) and the absence of effective internal controls that would provide a reasonable assurance of compliance and that documentation supporting various financial related transactions is present.

Our fieldwork and testing at Hawthorne identified that:

- The Elementary School Assistant (ESA) failed to comply with the cash handling and management requirements for the ASB Fund's cash assets that resulted in the loss of assets and increased risk that ASB Fund assets could be manipulated or misappropriated.

- Failure to comply with prescribe procedures resulted in the Hawthorne students being denied the use of funds that should have been transferred to the Hawthorne ASB general fund.
- A non-District organization conducted a raffle at Hawthorne without obtaining the required license/permit from the California Department of Justice.
- Proceeds from fundraising event by a non-District organization were missing.

Additionally, we found weaknesses in the documentation for T&L transactions, ASB Fund disbursements, and P-Card transactions. These weaknesses call into questions the appropriateness of the transactions and the costs incurred by both appropriated and nonappropriated funds,

Our work identified questioned costs of \$6,792 for the three programs that we reviewed. The following table provides the questioned cost for each of the programs.

Table 1: Summary of Questioned Costs

<i>Financial Operation Reviewed</i>	<i>Amount</i>
Associated Student Body Fund	\$ 3,408
Purchase Card Expenditures	802
Time and Labor Charges	2,582
Total Questioned Costs Identified	\$ 6,792

Source: OIA Review of Hawthorne financial activities

Questioned costs are costs identified and questioned by the auditor because of: an alleged violation of a provision of law, regulation, policy or administrative procedure; a finding that the cost, at the time of the review, is not supported by adequate documentation; or a finding that the expenditure is unnecessary or unreasonable.

Summary of Recommendations

Our report includes 17 recommendations for corrective actions. The recommendations include one to the Chief Financial Officer (CFO), two joint recommendations to the Chief Human Resources Officer (CHRO) and the AS-4, and 14 recommendations are addressed to the Hawthorne Principal.

Our recommendation to the CFO is to take the appropriate actions to collect the compensation overpayments identified in this report.

We recommend that the CHRO and the AS - 4 are to determine the culpability of the former HES principal for the inappropriate use of the ASB Fund, and determine appropriate administrative action, if any, is warranted for the ESA as a result of the violation of District policies and APs for the processing and maintaining control of ASB receipts and assets.

Our 14 recommendations to the HES Principal include in part:

- Require that the ESA comply with the APs related to the internal controls and documentation for all ASB receipts and disbursements.
- Require both the P-Card holder and the approving official (AO) to ensure that original documentation is maintained to support all P-Card related transactions.
- Require that the Hawthorne timekeeper ensure all timecards are complete, accurate, and reflect all charges for leave, paid-time-off (PTO) and additional pay, included in the payroll, are on-file prior to the review and approval of the payroll by the Principal.
- Establish policies, procedures, and practices to ensure that all timecards, payroll records, and reports related to the processing of individual payroll times and transactions are retained and safeguarded.

Background

Hawthorne is a kindergarten through six grade (K – 6) elementary school that operates on the SDUSD traditional calendar. At the close of school year 2014 (SY-14), Hawthorne enrollment was 314 students, and 33 staff were assigned to the school.

At the request of the AS- 4, OIA conducted a review of three financial operations at Hawthorne: the ASB Fund, the use of the P-Card by the staff, and the T&L charges incurred and posted to the District’s payroll system.

The ASB Fund operates solely for the benefit of the Hawthorne students. It serves as a financial clearing house for the students’ extra-curricular activities, clubs, and social events. The ASB is operated and accounted for as a trust fund. At the elementary school level, the Hawthorne Principal has both the authority and the responsibility for the ASB. The principal is the sole trustee for the ASB Fund and has a duty, as the trustee, to preserve the ASB assets for the use and benefit of the students currently enrolled at the school.

At the elementary school level, funds to support the ASB activities are raised through student fundraisers or through the activities of non-District organizations in support of the ASB, as a whole, or a specific activity or club. Funds that are not specifically designated for a specific activity or club are deposited in the general fund. General fund assets are required to be used for the benefit of the student body, as a whole.

The principal, according to SDUSD policies and APs, is the final approval authority for all fundraising activities within or on behalf of the school. The principal is permitted to delegate certain authorities

for the operation of the ASB Fund to school staff. However, they ultimately maintain responsibility for the operation of the complete ASB Fund.

The Hawthorne ASB Fund on 12 September 2014 had a cash balance of \$788, with \$369 of this balance attributable to the Hawthorne general fund. During the review period, the Hawthorne ASB Fund received \$3,387 and disbursed \$3,930.

The P-Card provides the Hawthorne Principal and staff with the ability to make small purchases without involving the SDUSD procurement staff. The P-Card operates in a manner similar to a credit card. The District, instead of the individual listed on the card, is responsible for payment of all expenses incurred on the card. In fiscal year 2014 (FY-14) Hawthorne expended \$3,903 using the P-Card.

The responsibilities of the P-Card program are split between the P-Card holder and the approving official for the card. The P-Card holder is responsible for the security of the card and ensuring that the P-Card complies with SDUSD procedures. The AO's responsibilities include reviewing all the charges to ensure the propriety of the charges and verify that all charges supported by the original invoice from the vendor. The AO is responsible for authorizing the payment of the P-Card charges.

The T&L charges are the backbone of the District's payroll system. The timecards and leave request/authorization forms support the data entered into the payroll system; and the use of PTO by the individual employee. The payroll system also accounts for various types of leave taken by employees and the accumulated balances for various types of PTO incurred by the District's employees.

Objectives and Scope

The objectives of this review were:

- Verify that the Hawthorne ASB Fund operates in compliance with applicable laws, regulations, District's policies, and APs;
- Verify that Hawthorne complied with the policies and procedures governing the operations of the P-Card program;
- Verify that Hawthorne complied with the requirements for recording T&L charges to the payroll system; and
- Determine whether the additional pay charges entered into the payroll system were adequately supported and that all charges were appropriately approved.

Our review periods were adjusted to meet the request of the AS-4. The review period for the ASB Fund included 1 July 2012 through 12

September 2014, inclusively. We reviewed the P-Card transactions during the period 1 July 2013 through 30 June 2014. The T&L charges were reviewed during the period 1 July 2012 through 30 June 2014; we limited our testing of T&L charges to transactional testing to ensure compliance with policies and procedures, for various payroll costs, leaves, and PTO taken by Hawthorne staff.

The procedures that OIA applied to the data provided by Hawthorne are not sufficient to constitute an audit performed in accordance with generally accepted government auditing standards. The purpose of which is to express an opinion, and we do not express an opinion, on the completeness and accuracy of the data for the Hawthorne' ASB Fund, P-Card charges, and T&L charges. Had we performed an audit in accordance with generally accepted government auditing standards, other matters may have come to our attention that we would report to you.

Processing ASB Cash Receipts and Disbursements Violated Policies

The procedures and processing of ASB Fund cash receipts and disbursements are covered by several APs. The APs provide guidance to the financial clerks, ESAs and ASB Advisors and principals on the type and extent of the documentation required for processing individual receipts. The overarching principle for the ASB operation is provided in AP 2225, *Administration of Student Body Funds*, § C.6.b states that:

Management. *Student body funds shall be managed in accordance with the best business practices, including sound budgetary and accounting procedures (Emphasis provided).*

Processing of Cash Receipts

The procedures for ASB Fund deposits are broadly discussed in AP 2445 *ASB Deposits, Authorized Bank*, §§ C.3 and C.4 state, respectively that:

Authorized Bank. *All student body checking accounts shall be maintained in the bank designated by the Board of Education. For information regarding authorized bank, call the Accounting Department. (Emphasis provided)*

All money collected during one day, prior to time for deposit, is prepared for deposit intact; personal checks may not be cashed from these funds. (Money bags awaiting pickup by messenger must be kept in a secure location until pickup.) (Emphasis added)

Further, AP 2247, *Student Body Checks*, § C.3 states that,

Payment of all bills *shall be by prenumbered check; cash collected by the student body shall not be used for payments of any kind. All checks shall be drawn to a named payee (never to "Cash") (Emphasis provided).*

During the period 8 through 12 April 2013, Hawthorne conducted a book fair as a fundraising event for the ASB Fund. From the available records, we determined that the total sales for this fundraiser were \$3,205. However, cash receipts of \$1,831 were either diverted by the ESA to another bank or not deposited at all in the ASB Fund's account, resulting in a loss to the Hawthorne ASB Fund of \$72.

The interim principal and the elementary school clerk (ESC), during independent interviews, stated that during the book fair (8-12 April 2013) the sales, together with the individual sales receipts and money tallies were placed in the school safe for safekeeping and not deposited in the ASB Fund account as required. On 15 April 2013 according to the ESC, the ESA removed the receipts from the safe, recounted the cash receipts, in total (\$2,431) with the ESC, destroyed all of the sales receipts and other documentation supporting the collections, and requested that the ESC accompany her to the Mission Federal Credit Union (MFCU) to obtain a cashier's check with the receipts to pay Scholastic, the book fair vendor, for the sales. The ESA obtained a MFCU cashier's check for \$1,758 for Scholastic. However, a portion of the receipts were in coin and could not be counted as the credit union's coin counter was broken. The ESA and ESC left with currency (the uncounted coin) and returned to Hawthorne. We were unable to verify that these funds were deposited in the ASB Fund account by the ESA or others. Figure 1 provides a summary of the sales, cost of sales, and the calculated profit from the book fair. Figure 2 calculates the fundraiser's revenue loss.

Figure 1: Calculation of Sales, Cost of Sales and Profit from Fundraiser

Sales per Scholastic Invoice		\$3,205.49
Sales Tax (8 percent)		<u>256.44</u>
Total calculated Sales		3,461.93
Less: Credit Card Sales	\$ 902.22	
Less: Payment to Scholastic (includes tax)	<u>1,758.34</u>	<u>2,660.56</u>
Calculated Profit from Fundraiser		<u>801.37</u>

Source: OIA analysis of interviews, Hawthorne records, and bank statements

Figure 2: Calculation of Revenue Loss from Fundraiser

Date	Receipt No.	Description	Amount
15 April 2013	137692	Check collections	129.05
16 April 2013	137671*	Cash collections	<u>600.00</u>
		Total Deposits	729.05
		Less Calculated Profit	<u>801.37</u>
		Unaccounted for shortage/revenue loss	<u>72.32</u>

Source: OIA analysis of interviews, Hawthorne records and bank statements

Note: * Out of sequence cash receipt form

OIA notes that the interim principal's assignment was terminated on 12 April 2013, and reinstated in mid-May 2013. At the time of the reinstatement, the ESC asked the interim principal whether the

funds from the book fair can be accounted for in an account other than the ASB Fund. According to the ESC the principal’s response was no and questioned the ESA why the book fair funds were not deposited and accounted for in the ASB Fund. The ESA’s response was that too much paperwork was involved in making the ASB deposit.

Processing of Cash Disbursements

AP 2225 § C.5.b(1) states that:

Student body funds are to be used to finance noncurricular activities beyond those provided by the district.

Note: *In elementary schools, funds may be used to finance activities for noninstructional periods or to enrich programs provided by the district.*

The same AP in section C.6 a. states, “Expending funds. Student body funds shall be expended for purposes that benefit the entire student body.”

AP 2518, *Payment for Expenses for Special Activities*, §§ C.6 and C.6.f respectively state that:

Expenses for the following are prohibited and will not be reimbursed. The approving manager will be held personally responsible for the expenses.

Awards, flowers, or gifts for employees, including gift cards or gift certificates. (Emphasis provided)

OIA identified ASB Fund disbursements that do not meet the requirements of the APs . These purchases, totaling \$ 1,011 included classroom supplies, gift cards, office supplies and food for parent meetings. Table 2 provides additional detail for these disbursements.

Table 2: Inappropriate ASB Purchases

<i>Date</i>	<i>Check No.</i>	<i>Description</i>	<i>Amount</i>
24 Aug 12	1140	Storage Units – Student Classroom use	\$ 200.00
4 Sep 12	1141	New Classroom – Student Supplies	305.00
4 Sep 12	1142	New Classroom – Student Supplies	125.11
5 Nov 12	1148	Student Daily Planners-Language and Math	45.23
5 Nov 12	1150	6 Wal-Mart Gift Cards	60.00
5 Dec 12	1156	Pizza for Parent Meeting / ELAC	85.14
16 Apr 13	1154 * ^a	Slim folio and screen for I-Pad	100.00
6 Jun 13	1161	6 th Grade Promotion Party Refreshments	89.98
Total Inappropriate Purchases			\$1,011.06

Source: Analysis of ASB Fund purchases

Notes: * Out of sequence check

^a This check is questioned for an overpayment of \$54 and the items purchased are not ASB Fund appropriate

Missing Funds from a Non-District Organization Fundraiser

As part of this review, OIA inquired regarding the status of a non-District organization's fundraiser, titled "Basket Gala" held on 16 April 2014 at Hawthorne. This event involved several of the Hawthorne staff. According to Hawthorne staff participating in the event: (i) the event was held at the conclusion of a school day, (ii) the participating staff sold event tickets and food, and (iii) at the close of the event, Hawthorne staff counted the receipts and prepared tally sheets to support the receipts. One of the staff that we interviewed, the receipts of approximately \$4,000 were turned over to the former principal for safekeeping. During our interviews related to this fundraiser, another Hawthorne staff member stated that the former principal stated that the receipts would not be secure at Hawthorne; therefore, she would take them home for safekeeping.

Subsequently, when the organization's treasurer inquired regarding the status of the funds the former principal explained that the principal's office had been broken into. The former principal was reported to have said the master key to the school, medications held in the Hawthorne's office, miscellaneous items, and the "Basket Gala" receipts were taken. AP 5025, *Property Damage or Loss*, § C.4 states that:

- a. *Any incident of theft of district equipment or of serious nonaccidental loss or damage shall be telephoned to the School Police Services Department immediately upon discovery.*
- c. *Every case of property damage or loss shall be reported immediately upon occurrence or discovery on "Property Damage or Loss Report" form (E.1, Attachment 1) (Emphasis added)*

OIA was unable to substantiate that the alleged break-in and theft were reported to the Police Services Department.

AP 9325, *Activities by Foundations, Booster Clubs, and Other Nondistrict Organizations*, § C.3.e states that:

The nondistrict organization's funds and accounts shall be kept completely separate from school and Associated Student Body accounts. The organization shall be responsible for their own bookkeeping and accounting. (Emphasis provided)

We concluded that this was not done as the Hawthorne staff and then the former principal controlled the accounting for and physical custody of the receipts.

OIA referred this incident for investigation to the SDUSD's Police Services Department. They reported that they were unable to obtain sufficient evidence to proceed with an investigation.

Recommendations

1. We recommend that the CHRO and AS-4 confer to determine the appropriate corrective action to take, if any, concerning the former principal's personal liability for the improper use of the ASB Fund assets, and the loss of the non-District Organization receipts, and the absence of compliance with the relevant District policies and APs.
2. We recommend that the CHRO and AS-4 confer to determine the appropriate administrative action, if any, for the ESA for the violation of the APs for the processing of proceeds from the ASB Fund's fundraiser, the missing and destroyed documents, and the loss/theft of ASB Fund assets.

We recommend that the Hawthorne Principal take the following actions:

3. Require that all funds received for ASB activities are deposited within one business day into the designated ASB Fund checking account.
4. Separate the duties for the receipt, depositing, recording and reconciliation of the ASB Fund cash in order to avoid one individual from gaining complete control of the processes for processing and accounting for ASB cash.
5. Require that all receipts be maintained to support any ASB Fund cash receipts.

Non-compliance with APs Significantly Impacted the Controls

The operation of the ASB Fund is similar to that of a trust fund and the school's principal is the sole trustee of the fund. In order to assist the principals and protect the ASB Fund assets; the operation of the ASB Fund is governed by portions of the Education Code, the California Department of Education regulations, the SDUSD Board of Education (BOE) policies, and various SDUSD APs.

Our testing found that the systems of internal control at Hawthorne were not effective in assuring compliance with the relevant BOE policies and APs. We identified issues with compliance related to the approval of ASB and non-district organizations fundraising activities, inappropriate fundraising activity conducted by a non-District organization, timely and effective review of ASB financial records and activity accounts, and weaknesses in compliance with good business practices for the operations of the ASB Fund. We have provided additional data on our testing and the results in the following sections of this report.

Absence of Approvals for Fundraising Activities

AP 2265, *Student Body Fundraising*, and AP 9325 require that all requests for fundraisers be documented from the point of receipt of the original request through the principal’s approval of the activity prior to its occurrence, to the execution of the fundraising activity. Further, both APs require that the ASB and the external organization provide an accounting for the funds raised and the proceeds provide to the ASB or specific activity fund.

OIA, due to the absence of documentation, was unable to determine whether the fundraisers listed in Table 3 had received the former principal’s approval or had fully accounted for the proceeds provided to the Hawthorne and its ASB.

Table 3: Unapproved Fundraising Activities

<i>Date</i>	<i>Fundraising Activity</i>
18 Dec 12	Pizza Hut
20 Dec 12	Holiday Gift Shop
8 -12 Apr 13	Book Fair
17 Jun 13	Pizza Hut
18 Dec 13	Signature Fundraising/Gift Ave.

Source: Analysis of ASB fundraising activities

Non-District Organization Inappropriately Raised Funds

Our review of the available Hawthorne ASB records found that a non-District organization had conducted a raffle that was to benefit the Hawthorne. The former Hawthorne principal did not assure that the organization had obtained the required licenses to conduct the raffle.

The State of California Penal Code § 320.5(h)(1) states that, “An eligible organization may not conduct a raffle authorized under this section, unless it registers annually with the Department of Justice.” Further, § 320.5(h)(6) requires that:

Once registered, an eligible organization must file annually thereafter with the department a report that includes the following:

- (A) The aggregate gross receipts from the operation of raffles.*
- (B) The aggregate direct costs incurred by the eligible organization from the operation of raffles.*
- (C) The charitable or beneficial purposes for which proceeds of the raffles were used, or identify the eligible recipient organization to which proceeds were directed, and the amount of those proceeds.*

Subsequently, we reviewed the Office of the Attorney General’s website and were unable to find that the organization had filed the required registration forms.

Timely Review of ASB Activity Accounts Not Conducted

Our review of the ASB financial records identified two dormant activity accounts with an aggregate balance of \$69 that were not transferred to the ASB Fund’s general fund account as required. As a result, the Hawthorne students were denied the use of these funds for other activities and uses.

AP 2225 § C.6.n requires at least an annual review of the ASB financial records to determine those activity accounts with no activity for at least one year. Any available balances remaining in the account are to be transferred to the ASB Fund general fund. Table 4 provides additional detail on the activity accounts in question.

Table 4: Inactive ASB Activity Accounts

Account	Account Title	Amount
2100	Sixth Grade	\$ 58.63
2420	Physical Education	10.00
Total Inactive Account Balances		\$ 68.63

Source: Analysis of ASB Fund financial records

Absence of Compliance with Accepted Business Practices

As part of our testing of the ASB Fund financial records and activities, we reviewed the cash receipts and disbursements processes to verify that Hawthorne complied with accepted business practices for the documentation of the transactions. We found that:

- 79 percent of the receipts (11 of 14) were written out of sequence;
- 93 percent of the receipts (13 or 14) lacked critical data as account number, account description, and source of the collection were not provided; and
- 25 percent of the ASB Fund checks (4 of 16) were out of sequence.

AP 2235, *Standard Student Body Receipts*, § C.2.e states, “School shall issue receipts in triplicate for all money collected, except cafeteria funds which are controlled by the cash register. The receipts must be written in sequence.” (Emphasis added)

Completing controlled (numbered) documents in sequence is critical to maintaining accountability for both receipts and disbursements. This practice assists ensuring that all receipts or disbursements have been accounted for and that all receipts and checks have been used, voided, or are held by the school.

Recommendations

OIA recommends that the Hawthorne Principal take the following actions:

6. Retain all requests for fundraising activities regardless of source, approvals, and documents supporting that all proceeds from the fundraisers have been accounted for. The documents supporting the fundraising activities should be held with the ASB Fund financial records;
7. Mandate that the ESA comply with the process and requirements in the APs for processing cash receipts and disbursements;
8. Mandate that the Hawthorne ESA and other staff involved with non-District organization fundraisers fully comply with the requirements of AP 9325 including maintaining separate and complete accountability for the receipts and disbursements.

Hawthorne Requires Significant Improvements in Transaction Documentation, Processing and Approval

The practices and procedures followed by Hawthorne during the period covered by this audit resulted in significant weaknesses for control and reporting of T&L costs and data, adversely impacted the operation of the P-Card program; and did not assure that all ASB Fund transactions were completely documented and appropriate for payment through the ASB.

SDUSD has developed two APs that specifically address documentation requirements for T&L data. The first AP is 2600, *Payroll and Time Reporting*, that covers the base level requirements for all T&L charges to the payroll system. The second AP is 7236, *Additional Hourly Assignments for Contract Teachers*. The requirements of this AP are limited to the assignment and payment of certificated staff for additional hourly assignments.

AP 2600 § C.3.b requires that principals at each school establish procedures for:

- prompt and accurate reporting of assignments, time worked, signing in/out by the staff;
- employee absence information for the SDUSD employees are reported and authorized on the designated forms; and
- certification of the accuracy of each payroll and the data reported including:
 - reviewing and approving all payroll transactions,
 - validating and signing official payroll audit documents, and
 - assuring that payroll deadlines are met.

Further, § D.1, of the same AP, requires that, *“All original timecards, leave forms, and signed audit reports must remain on file for three (3) years , plus the current year (a total of (4) years).”*

AP 7236 requires in § C.2.a that *“Only teachers specifically approved for compensation shall be paid”* and § C.2.c requires, *“Approval in writing for appropriate division head/instructional leader must be*

obtained (D.1) before teachers are employed to perform services covered by the procedure.”

For the periods included in this review, Hawthorne could not support \$2,057 in costs for additional pay as a result of missing/non-existent documentation. Further charges for various types of leave and PTO, totaling 3,985 hours were not entered into the system, authorized by the principal or documentation was not available or maintained. In our opinion, the Hawthorne payroll data and accrued employee payroll liabilities (individual PTO balances) for FY-13 and FY-14 cannot be relied upon.

We identified that 21 percent of the P-Card charges (\$802 of \$3,903 charged in FY-13) were not supported with the required original documentation. Also, Hawthorne did not properly report the \$21 of California Use Tax that they incurred through purchases of \$280 using the P-Card.

Furthermore, Hawthorne did not obtain documentation to support \$552 of ASB disbursements during FY-14, and they did not submit the required consultant services form to the Finance Department for one consultant payment of \$200. The missing disbursement documentation represents 12 percent of the total FY-14 ASB Fund disbursements.

Timecards Not Available to Support Additional Pay Hours

During our fieldwork, Hawthorne was unable to provide us with all the timecards that supported the charges for additional pay, extra pay, and overtime for FY-13 and FY-14. As a result, Hawthorne could not provide us with an assurance that all the costs incurred for additional hours were appropriate, and the individual who received the additional compensation was assigned and actually worked the hours. Table 5 provides additional detail on the unsupported additional pay hours, by time reporting code (TRC).

Table 5: Unsupported Additional Pay Compensation

<i>FY</i>	<i>TRC</i>	<i>Additional Pay Type</i>	<i>Hours</i>	<i>Amount</i>
2013	CRG	Regular Time – Certificated Hourly	8.00	\$ 535.68
	CRH	Classroom Hourly	4.50	176.92
	EXTRA	Extra Time	12.00	215.22
	OTH	Overtime	14.00	450.73
	REG	Regular Time – Classified Hourly	3.30	34.16
2014	OTH	Overtime	11.00	372.06
	PTCL	Prime Time Classroom - Hourly	1.50	76.55
	REG	Regular Time – Classified Hourly	18.20	195.29
Total Unsupported Additional Pay Compensation			72.50	\$2,056.61

Source: Analysis of payroll costs and supporting documentation

Further, we found that the principal(s) did not authorize timecards for additional compensation costs of \$525.00. The Government Accountability Office (GAO) in *Maintaining Effective Control over*

Employee Time and Attendance Reporting (Report Number: GAO-03-352G) states in part:

Approval should be obtained for overtime before the work has been performed when feasible and, when not feasible, as soon as possible after the work has been performed.

All T&A reports and related supporting documents (e.g., overtime pay authorizations) should be reviewed and approved by an authorized official. Review and approval should be made by the official, normally the immediate supervisor, most knowledgeable of the time worked by and absence of employee involved.

Table 6 provides additional detail on the additional pay costs that were not authorized by the Hawthorne principal.

Table 6: Unauthorized Additional Pay Hours and Cost

<i>FY</i>	<i>TRC</i>	<i>Additional Pay Type</i>	<i>Hours</i>	<i>Amount</i>
2013	CRH	Classroom Hourly	8.50	\$ 334.18
2014	CRH	Classroom Hourly	2.50	141.02
	REG	Regular Time – Classified Hourly	4.40	49.46
Total Unauthorized Additional Pay Hours and Costs			15.40	\$ 524.66

Source: Analysis of payroll costs and supporting documentation

Controls for Leaves and Absences Were Not Functional

Our testing of the process to authorize, review and pay for additional hours worked and leaves taken did not function effectively. We identified various leaves and payments for hours worked that were not recorded, authorized, or paid by Hawthorne due to an ineffective review process.

AP 2600 § C.3.b requires in part that, ***“Principals/department heads establish procedures providing for prompt and accurate reporting of assignments, time worked, signing in and out, and absence information for district employees ...”*** (Emphasis provided)

Our testing identified that Hawthorne lacks a functional system to ensure that all requests for absences and leaves are authorized by the principal and recorded timely in the payroll system. We identified that 138 hours of leave recorded in the system were not authorized by the principal. Table 7 details the unauthorized leave entries.

Table 7: Unauthorized Leaves Entered in Payroll System

<i>FY</i>	<i>TRC</i>	<i>Type of Leave Requested</i>	<i>Hours</i>
2013	FLH	Floating Holiday	5.00
	DBS	District Business	16.00
	SLF	Sick Leave – Full	23.00
	SLH	Sick Leave – Half	8.00
	PRB	Personal Business	8.00
2014	DBS	District Business	48.00
	PRN	Personal Necessity	6.00
	SLF	Sick Leave – Full	16.00
	SLH	Sick Leave – Half	8.00
Total Unauthorized Leave Requests			138.00

Source: Analysis of payroll data and supporting documentation

We identified 50 instances where the leave taken was not recorded in the payroll system. The failure to record these leaves impacted 23 (70 percent) of the Hawthorne staff and resulted in an overstatement of the District’s liability for unpaid regular hours, sick and vacation leaves. Table 8 provides the detail of the unrecorded hours.

Table 8: Unrecorded Additional Pay and Leave

<i>FY</i>	<i>TRC</i>	<i>Additional Pay/Leave Type</i>	<i>Instances</i>	<i>Hours</i>
2013	DBS	District Business	2	15.00
	PTCL	Prime Time – Classroom Hourly	4	6.00
	PTTU	Prime Time – Tutoring Hourly	1	2.00
	PRN	Personal Necessity	1	4.00
	SLF	Sick Leave – Full	10	77.00
	RH	Religious Holiday	1	8.00
2014	DBS	District Business	6	48.00
	PRB	Personal Business	2	16.00
	PRN	Personal Necessity	3	15.00
	REG	Regular Hours	5	5.50
	SLF	Sick Leave – Full	13	96.00
	VAC	Vacation	2	15.00
Total Unrecorded Additional Pay and Leave			50	307.50

Source: Analysis of payroll data, payments, and supporting documentation

As a result of these deficiencies, Hawthorne cannot provide assurances that all compensable and leave hours have been accurately recorded, compensated, and any payroll liabilities have been adjusted to reflect the correct balances for each individual.

Payroll Documentation Not Available

AP 2600 § D.1.b requires that all original timecards and other documentation supporting payroll costs be maintained at the school for a minimum of 4 fiscal years (current year and three prior years).

Our testing identified that Hawthorne did not retain 200 leave requests, totaling 1,466 hours. Additionally, Hawthorne did not retain 46 percent of the *Audit Paid to Reported Time* reports (22 of 48) during our review period.

The Hawthorne principal’s review and authorization of the hours and amounts include in the *Audit Paid to Reported Time* report provides a detective control that is designed to verify that all of the T&L entries agree with the supporting documentation and were accurate, appropriate, and supported with timecards, leave requests, or other documentation. The principal’s signature represents that the data in the payroll system is accurate and all transactions are authorized. In our opinion, had the *Audit Paid to Reported Time* report been reviewed and verified, many of the T&L discrepancies we identified could have been corrected.

As a result of the missing documentation, Hawthorne cannot provide a reasonable assurance that all requests for leave, and compensable hours were appropriately recorded. Further, should a question arise from the staff regarding the accuracy of leave recorded or compensable hours Hawthorne may not be able to validate that the entries are appropriate.

Table 9 provides additional data on the missing leave requests during our review period.

Table 9: Leave Requests Not Provided

<i>FY</i>	<i>TRC</i>	<i>Additional Pay/Leave Type</i>	<i>Instances</i>	<i>Hours</i>
2013	BRV	Bereavement	1	7.00
	CPT	Comp Time Taken	1	8.00
	CRT	Court Appear – Subpoena Witness	1	8.00
	DBS	District Business	9	69.00
	PB2HR	Personal Business – 2 Hours	2	4.00
	PPI	Profession – Personal Improvement	5	40.00
	PRN	Personal Necessity	3	18.00
	SLF	Sick Leave - Full	104	805.00
	SLH	Sick Leave - Half	6	48.00
	VAC	Vacation	22	143.00
2014	DBS	District Business	10	80.00
	FLH	Floating Holiday	1	8.00
	PAL	Paid Administrative Leave	1	8.00
	PRB	Personal Business	2	15.00
	PRN	Personal Necessity	6	40.00
	SLF	Sick Leave - Full	22	138.00
	SLH	Sick Leave - Half	1	4.00
VAC	Vacation	3	23.00	
Total Leave Request Not Provided			200	1,466.00

Source: Analysis of payroll charges and supporting documentation

Time Reporting Discrepancies Not Identified and Timecards Do Not Appear Reliable

The absence of an effective system of internal controls for T&L recording and review by the Hawthorne staff and principal resulted in overpayments to staff of \$562 and over and undercharges of PTO categories to six Hawthorne employees that resulted in a variances of PTO charges by 41.50 hours.

Our testing included a review of 1,217 timecards for accuracy and completeness. In 117 of those timecards (10 percent of the

population), we found one or more discrepancies causing us to question the reliability and accuracy of the data on the timecards and the data reported through the T&L system.

AP 2600 § C.3.b requires that principals establish systems to ensure the prompt and accurate reporting of data impacting the T&L system including hours worked, employee absences, and use of various leaves and PTO.

Table 10 identifies the amounts overpaid to three employees during our review period.

Table 10: Overpayment of Compensation

<i>Employee</i>	<i>Recorded Hours</i>	<i>Corrected Hours</i>	<i>Hours Over/(Under)</i>	<i>Over/Under Payment</i>
1	8.00	0.00	8.00	\$ 535.68
2	80.00	77.00	3.00	14.60
3	1.10	0.00	1.10	11.39
Total Overpayment				\$ 561.67

Source: Analysis of payroll charges and supporting documentation

In testing the T&L documentation provided to us, we identified 41 hours, for six employees, that were not properly charged to PTO categories in the T&L system. The failure to verify the accuracy of the data entered into the T&L system either prior to payment or as part of the required review of the *Audit of Paid to Reported Time* report allowed these discrepancies to occur. Table 11 provides additional detail for these discrepancies.

Table 11: Discrepancies in Hours Entered into T&L

<i>Employee</i>	<i>Recorded Hours</i>	<i>Corrected Hours</i>	<i>Hours Over Charged</i>	<i>Hours Under Charged</i>
A	161.00	149.50	11.50	
B	7.00	6.00	1.00	
C	116.00	104.00	12.00	
D	97.00	105.00		8.00
E	28.00	24.00	4.00	
F	8.00	4.00	4.00	
Total Discrepancies in Hours Entered into T&L			32.50	8.00

Source: Analysis of payroll charges and supporting documentation

The timecards and supporting data are the backbone for the data entered into the T&L system. Without ensuring the completeness and accuracy of the timecard data, Hawthorne cannot provide a reasonable assurance that the data entered into the T&L system is accurate and reliable.

Our review of individual timecard data included the following testing:

- employee signature verifying the accuracy of the data was present:

- sign-in and out times were included and accurate;
- timecard was verified and signed by the Hawthorne principal;
- employee provided an explanation of all leave taken during the period; and
- timecard indicates the dates of the period covered and any leave taken.

Documentation of ASB and P-Card Transactions Did Not Consistently Comply with Policies

AP 2225 § C.6.b states that

Management. *Student body funds shall be managed in accordance with the best business practices, including sound budgetary and accounting procedures. (Emphasis provided)*

Additionally, GAO’s publication *Standards for Internal Control in the Federal Government* (Report Number: GAO/AIMD-00-21.3.1) states in part that:

Internal control and all transactions and other significant events need to be clearly documented, and the documentation should be readily available for examination. (Emphasis added).

The District’s *Purchase Card Procedures Manual (Manual)* requires that P-Card holder as part of the procurement process obtain original receipts for all P-Card transactions. In instances where the purchase is made via telephone, facsimile, or the internet the P-Card holder is to request that an original invoice be included with the merchandise when it is shipped.

The State of California requires that, with few exceptions, that California based businesses self-report and pay use tax on all purchases made on purchases where the vendor does not collect California taxes. The *Manual* requires that both P-Card holders and AOs review the purchases to determine whether the vendor has billed for the sale/use tax as part of the invoice and if not, changing the tax indicator on the P-card reconciliation screen to “no”. This triggers the Finance Department to make the necessary payment and charge the P-Card user’s operating budget.

ASB Fund Disbursements

As part of this review, we tested the ASB Fund disbursements and identified four disbursements totaling \$552 that were not supported with appropriate documentation. Table 12 provides additional detail on the disbursements without the required supporting documentation.

Table 12: Disbursements without Supporting Documentation

<i>Date</i>	<i>Check</i>	<i>Description</i>	<i>Amount</i>
22 Oct 13	1164	Student activities	\$ 270.00
6 Nov 13	1166	Minimum day Student Club	42.40
11 Dec 13	1167	Student materials for student awards	82.85
29 May 14	1172	Attendance, academic trophies, & ribbons	157.15
Total Disbursements without Documentation			\$ 552.40

Source: Analysis of ASB Fund disbursements

Hawthorne P-Card Purchases

Our review of the FY-14 Hawthorne P-Card transactions, we identified five instances where the P-Card holder and the AO did not ensure that the transactions were supported by original receipts. The five purchases cited represent 21 percent of the total FY-14 purchases made using the P-Card. Table 13 provides details for these purchases.

Table 13: P-Card Purchases Without Original Receipts

<i>Date</i>	<i>Vendor</i>	<i>Support</i>	<i>Amount</i>
10 Oct 13	Collaborative Learning	No item detail	\$ 400.00
30 Oct 13	School Health Corp.	Packing Slip	267.03
21 Dec 13	Erincondren.com	No item details	84.75
27 Jan 14	Amazon Mktplace Pmts	Packing Slip	15.12
27 Jan 14	Amazon Mktplace Pmts	Packing Slip	35.10
Total P-Card Purchases without Original Receipts			802.00

Source: Analysis of P-Card purchases and supporting documentation

Use Tax Not Reported

Our P-Card transaction review identified four transactions with a total value of \$280 where the absence of a sales/use tax collection is not identified. This resulted in Hawthorne not paying \$21 in California Use Tax. Table 14 identifies the transactions where the Use Tax was not reported.

Table 14: Purchases Without Sales/Use Tax

<i>Date</i>	<i>Vendor</i>	<i>Invoice Amount</i>	<i>Use Tax Amount</i>
21 Aug 13	Amsterdam Print & Litho	\$ 60.09	\$ 4.87
21 Sep 13	Direct School Supply	143.80	10.54
18 Jan 14	Starfall Publications	60.50	4.36
24 Jan 14	Amazon Mktplace Pmts	15.58	1.25
Total Purchases without Sales/Use Tax		\$279.97	\$20.96

Source: Analysis of P-Card purchases and supporting documentation

Consultant Form Not Submitted

The Internal Revenue Code requires that payments to independent contractors and certain other groups that are equal or greater than \$600 in a calendar year be reported to the Internal Revenue Service on Form 1099-MISC. In order to comply with this requirement the Finance Department requires school ASB Funds to complete a Consultant Form for all payments to independent contractors and service providers. This form, when completed, contains the data necessary to prepare the 1099-MISC at calendar year end.

During our review of the ASB Fund disbursements, we identified two payments to independent contractors that were not supported with

the Consultant’s Form. Table 15 provides additional detail on the payments that were not supported with the Consultant Forms.

Table 15 Missing Consultant Forms

<i>Date</i>	<i>Check No.</i>	<i>Vendor</i>	<i>Amount</i>
29 May 14	1174	Alaska Husky Spirit Assembly	\$200.00
31 Mar 14	1175 *	Alaska Husky Spirit Assembly	250.00
Total Payments to Vendors with Missing Consultant Forms			\$450.00

Source: Analysis of ASB Fund Disbursements

Note: * Indicates an out of sequence disbursement

Recommendations

- The CFO should initiate collection actions for the individuals that received overpayments outlined in Table 10.

OIA recommends that the Hawthorne Principal take the following actions:

- Require the timekeeper to complete *Time Correction Notices* for all absences and leaves that were not recorded in the payroll system;
- Mandate that all staff fully and accurately complete the timecards to support the hours worked and any hours taken as leave or PTO;
- Require that the timekeeper ensure that all timecards, leave and PTO applications are complete and authorized prior to entry into the T&L system.
- As part of the mandated review of the *Audit Paid to Reported Time* report verify the accuracy of the data by sampling a selection of timecards and leave applications used to support the data entries;
- Establish school-based policies, procedures and practices to ensure that all payroll related records, documentation, and reports are retained and safeguarded for the four period required by AP 2600 §D.1.
- Require that the P-Card holder and AO comply with the *Manual’s* requirements that all transactions be supported with original documentation. Further, steps are taken to safeguard this documentation for a minimum five year retention period.
- Develop procedures to ensure that the P-Cardholder and AO comply with the Sales/Use Tax reporting requirements outlined in the *Manual*, and all P-Card transactions be verified to ensure that the Sales/Use tax has either been collected or reported.
- Require that the ESA comply with the Finance Department policies to complete consultant forms for all independent contractors or service providers to support the disbursements.

Officials' Comments and Our Evaluation

We requested comments on a draft of this report from the CFO, CHRO, AS-4 and the Principal, Hawthorne. We did not receive comments from the CHRO and the AS-4. We did receive comments from the CFO and the Principal, Hawthorne. We found that comments were responsive to the recommendations and once implemented would address the causes of the conditions highlighted in this report.

Contributor

Ines G. Abitria, an OIA auditor, was the principal auditor assigned to this project and the principal contributor to this report.

Copies of this report will be provided to the Board of Education, the Audit and Finance Committee, Superintendent of Public Education, the General Counsel, and the Executive Director, Quality Assurance. An copy of this report will be placed on the District's webpage at <http://www.sandi.net/Page/2906>.




John M. Cashmon
Director, Internal Audit

Appendix I Response from the Chief Financial Officer



San Diego Unified
SCHOOL DISTRICT

Jenny Salkeld
Chief Financial Officer
Finance Division
jsalkeld@sandi.net
619.260.5443 • 619.725.7692 fax

TO: J. Cashmon
FROM: J. Salkeld 
DATE: May 18, 2015
**SUBJECT: RESPONSE – HAWTHORNE ELEMENTARY SCHOOL:
REVIEW OF SELECTED FINANCIAL OPERATIONS**

The Chief Financial Officer concurs with the intent of the recommendation. The Payroll department will take appropriate action based on the facts and circumstances surrounding the time and labor recordkeeping. The payroll overpayment will be processed upon receipt of the time and labor correction notice from the school site.

JS:cl

Appendix II – Response from the Principal, Hawthorne Elementary School



Hawthorne Elementary School
4750 Lehrer Drive
San Diego, CA 92117
Telephone: (858) 273-3341
Facsimile: (858) 274-6379



Cindy Marten
Superintendent of Schools

Sofia Freire
Area 4 Superintendent

Stanley Anjan
Principal

Mr. Cashmon,

Please find below my responses to the Hawthorne Elementary audit dated April 16, 2016.

Action 3:

It is the understanding of site principal and the office staff, specifically my Elementary School Assistant (ESA) that all monies collected via ASB activities are deposited to the ASB Fund checking account on the next business day following any such event. AP 2445 was shared with the ESA during a one on one meeting conducted on April 30, 2015.

Action 4:

In a small elementary school, with minimal office staff overseeing ASB Funds, it is not possible to break up the duties as described. What has been put in place is a cross referencing system where the site principal will conduct monthly checks of the accounting for the funds to insure all processes are followed appropriately.

Action 5

In the one on one ESA meeting held on April 30, 2015 a file was created to secure all ASB fund receipts. This file is maintained in the school office.

Action 6:

All staff were notified at a staff meeting on April 13, 2015 that any fundraising activities must meet district guidelines, appropriate forms completed and provided to the principal for approval prior to any fundraiser. A file for the documentation has been created and is found within the school office.

Action 7 and 8:

At both the April 30, 2015 one on one with the ESA and the April 13, 2015 staff meeting with school staff the Administrative Procedures (2225, 2235, 2265, 9325) were shared. The importance of following the procedures was emphasized. Progressive disciplinary action, including written documentation if necessary, was also mentioned as a possible action for those who refuse to follow the procedures.

Action 10, 12, 14, and 17:

Appendix II – Response from the Principal, Hawthorne Elementary School

At the one on one meeting with the ESA held on April 30, 2015 the importance of accurate timekeeping was discussed. Specific details as outlined in the audit were discussed, including length of maintaining records, location to house such records, gaining administrator approval of time cards before entering the data into the T&L system, and appropriate compliance with the Finance Department for completion of consultation forms. Progressive discipline measures were also discussed to insure compliance of such actions in the future.

Action 11:

At the staff meeting held on April 13, 2015 proper completion of time cards was shared via a model. This model has also been shared via the site bulletin.

Action 13:

The site principal has and will continue to verify the accuracy of data by sampling various time cards and leave applications used to support data entries. This will be an ongoing sampling every two months.

Action 15 and 16:

At the one on one meeting held with the ESA on April 30, 2015 Procurement Card policies and procedures were thoroughly reviewed. All future actions involving the Procurement card will follow district policy and all records will be maintained for a minimum of five years.

Should you require additional information and or document ion please do not hesitate to contact me.

Stan Anjan
Principal, Hawthorne Elementary