



Report to the Chief Financial
Officer, Chief Human Resources
Officer, and the Principal, Taft
Middle School

June, 2015

TAFT MIDDLE SCHOOL

Review of Selected Financial Operations

Reissued

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.

Contents

Letter		1
	Results in Brief	1
	Summary of Recommendations	3
	Background	3
	Objectives and Scope	5
Improved Compliance with Applicable Laws, Regulations, Policies and Procedures Is Necessary	Inappropriate Expenses Paid from the ASB Fund and the P-Card Program	7
	Absence of Timely Review of ASB Activity Accounts	9
	Merchandise Inventory Not Taken at Year-end	9
	Absence of ASB Operating Budget and Approvals for Fundraising Activities	10
	Required Signatures and Documentation Missing	11
	Recommendations	11
Significant Improvements in Documentation, Processing and Review of Transactions	Timecards and Authorizations Not Available to Support Additional Pay Hours	14
	Absences and Leaves Not Consistently Recorded and Authorized	14
	Payroll Documentation Not Available	16
	Timecards Do Not Appear Reliable	17
	AP 7236 Does Not Align with the Current Business Process	17
	Documentation of P-Card Transactions Did Not Comply with Policies	17
	Recommendations	19
Officials' Responses and Our Evaluation		19
Contributor		20
Appendix I	Response from the Chief Financial Officer	21
Appendix II	Response from the Principal, Taft Middle School	22
Tables	Table 1: Summary of Questioned Costs	3
	Table 2: Inappropriate ASB Purchases	8
	Table 3: Prohibited P-Card Practices	8
	Table 4: Dormant ASB Fund Activity Accounts	9
	Table 5: Requisitions Without Signatures	11
	Table 6: Student Body Checks Without Requisitions	11
	Table 7: Unauthorized Additional Pay Hours and Costs	14
Tables	Table 8: Unrecorded Absences	15

Table 9: Leave Hours Not Authorized	16
Table 10: Missing Leave Requests	16
Table 11: P-Card Charges without Original Receipts	18

Abbreviations and Acronyms Used

Administrative Procedure	AP
Associated Student Body	ASB
Chief Financial Officer	CFO
Chief Human Resources Officer	CHRO
San Diego Unified School District	District
fiscal year	FY
U.S. Government Accountability Office	GAO
Office of Internal Audit	OIA
<i>Purchasing Card Procedures Manual</i>	<i>Manual</i>
Purchase Card	P-Card
Parent Teacher Association	PTA
paid-time-off	PTO
San Diego Unified School District	SDUSD
school year	SY
Taft Middle School	TMS
time and labor	T&L
time reporting code	TRC
United States Postal Service	USPS



8 June 2015

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The Office of Internal Audit (OIA) as part of its annual work plan undertook a review of selected financial operations at the Taft Middle School (TMS). This review focuses on the Associated Student Body (ASB) Fund, the use of the purchase card (P-Card) program by TMS staff, and the reporting of time and labor (T&L) events and additional compensation charges to the San Diego Unified School District's (SDUSD's or District's) payroll system. Our review included the period 1 July 2013 through 30 June 2014, fiscal year 2014 (FY-14). The balance of this document summarizes our work, findings, and provides recommendations to improve the conditions that we identified during our testing and observation for this report.

TMS experienced high staff turnover in the position responsible for the daily financial operations at the school prior to and during our audit period. This high level of turnover may have contributed to the conditions we cite in the balance of this report.

OIA requested and received a joint response to a draft version of this report from the Chief Financial Officer, the Chief Human Resources Officer, and the TMS Principal. We considered their responses in the preparation of this final report.

This report was reissued on 8 June 2015 to include additional information provided by the Chief Financial Officer.

Results in Brief

The systems of internal control at TMS do not consistently provide a reasonable assurance that all transactions are recorded timely and properly, and that the transactions were compliant with the applicable laws, regulations, policies, and procedures. Our testing identified that TMS did not adequately safeguard and store the supporting reports and documentation for transactions, and assurances were not provided that documentation was retained in

compliance with SDUSD record retention policies and procedures and those of the State of California.

OIA identified several weaknesses in compliance with SDUSD procedures including:

- Inappropriate purchases of \$2,419 were made from the ASB Funds and appropriated funds using the P-Card program;
- The lack of the required review for dormant ASB activity accounts resulted in TMS not transferring \$1,539 of dormant funds to the ASB general fund;
- Required annual inventory of saleable merchandise was not taken at the conclusion of school years 2013 (SY-13) and SY-14 potentially materially misstating the financial position of the Student Store and the ASB Fund, as a whole; and
- TMS did not establish the required annual ASB operating budget nor did they retain all requests, and approvals, for ASB fundraisers and those from nondistrict organizations.

Our findings related to documentation of transactions include in part:

- Timecards were not available to support \$304 (16.75 hours) of additional pay and the TMS Principal did not authorize additional payments of \$2,346 (47.25 hours);
- Employee absences and leave were not consistently recorded and authorized by TMS;
- TMS did not retain 96 requests for various types of leave totaling 674 hours ;
- Supplementary receipts employed by the ASB Fund were not fully documented and we identified 60 instances where one or more required signatures for ASB requisitions were not secured;
- ASB disbursed checks totaling \$2,083 without the required requisitions in place; and
- TMS did not retain original documentation for 30 P-Card purchases that represent 15 percent of the total P-Card expenditures for FY-14.

The report includes questioned costs of \$11,368. We have defined this term as a cost that the auditors questioned 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 audit, is not supported by adequate documentation; or a finding that the expenditure is unnecessary or unreasonable. Table 1, summarizes the questioned costs that we identified as part of this review.

Table 1: Summary of Questioned Costs

<i>Financial Operation Reviewed</i>	<i>Amount (\$)</i>
Associated Student Body Fund	5,627.00
Purchase Card Expenditures	3,001.00
Time and Labor Charges	2,740.00
Total Questioned Costs Identified	11,368.00

Source: OIA review of TMS

Summary of Recommendations

The report includes 15 recommendations for improvement in the TMS internal controls and financial operations. OIA addressed 13 recommendations to the Principal. We addressed two recommendations jointly to the Chief Financial Officer and the Chief Human Resources Officer.

Our recommendations to the Principal included, in part, that:

- Require the P-Card holder and approving official comply with the P-Card program prohibitions of items purchased with the P-Card and the use of the P-Card by external organizations.
- Require the timekeeper ensure that all timecards are complete, accurate, reflect all leave charges and additional pay included in the payroll, and are on-file prior to the processing of the payroll.
- Sample the underlying documentation with the data recorded in the *Audit Paid to Reported Time* report verifying the accuracy, reliability, and completeness of the data.
- Establish practices within TMS to ensure that all timecards, records, and reports related to payroll process are retained and safeguarded. These practices should ensure that TMS meets the retention period requirements of Administrative Procedure (AP) 2600, *Payroll and Time Reporting*.

We provided two recommendations that are jointly addressed to the Chief Financial Officer (CFO) and the Chief Human Resources Officer (CHRO). These recommendations are:

- Determine the personal liability for the inappropriate expenditure of ASB Funds by the TMS principal and the corrective action, if any, to be taken.
- Update AP 7236, *Additional Hourly Assignments for Contract Teachers* to reflect the current business process employed with the PeopleSoft payroll system.

Background

TMS operates on a traditional calendar and enrolled 501 students at the close of school year 2014 (SY-14). Forty-five staff were assigned to the school at the close of SY-14.

OIA reviewed three key financial and operational areas at TMS: the operations of the ASB Fund, the use of the P-Card program, and the time and labor (T&L) charges to the payroll system. The ASB Fund operates by and for the benefit of the current students at TMS. The P-Card program allows the TMS staff to make micro and small purchases of goods and services for the school. The T&L entries into the payroll system serve as the backbone of the payroll system and account for the time spent on duty and in various leave or paid-time-off (PTO) statuses.

The ASB Fund serves as the financial clearing house for the student's extracurricular activities, clubs, and social events. It is administered and accounted for as a trust fund. The TMS Principal is the sole trustee of the TMS ASB Fund.

The primary sources of ASB funds are fundraisers by the students or fundraisers held by nondistrict organizations for the benefit of the TMS students. The ASB may also accept donations to a specific student activity or to the ASB from individuals and organizations outside of the District. State of California laws, regulations, and the District's policies and procedures control the operations of the ASB Fund. Students at the middle and high school level are responsible for the operations of the ASB Fund. Included in the operations is the establishment of annual operating budgets, developing and executing fundraising events, and determining how the funds will be expended. The ASB Advisor and the individual student activity advisors appointed by the principal and the financial clerk advise and assist the students in the ASB Fund operations. The principal also advises the students but has the final approval authority for the proposed fundraising events and the use of the funds. The principal may deny a fundraiser or proposed expenditure to comply with the District's policies and procedures and State laws and regulations. As the trustee, the principal is responsible for the preservation of the ASB Fund for the benefit of the current students.

The cash balance of the TMS ASB Fund, as of 30 June 2014, was \$43,892; \$16,309 of the balance is attributed to the ASB General Fund. General Fund resources are required to be used for the benefit of all the students. During FY-14 the ASB received \$22,931 and disbursed \$34,933.

The P-Card provides TMS with the ability to make small purchases of goods and services without being required to use the District's procurement process. The P-Card operates in a manner similar to a credit card. A P-Card holder must comply with several spending limitations in addition to the policies and

procedures. These spending limitations are set by SDUSD and may be adjusted for specific needs or purchases.

The responsibilities for the P-Card program at TMS 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's use complies with SDUSD policies. The approving official is responsible for reviewing the use to ensure propriety of the charges to the P-Card and verify that original documentation supports all charges to the P-Card. Also, the approving official is responsible for authorizing payment of the P-Card charges for the school. In FY-14 TMS charged \$17,409 to the P-Card.

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. The payroll system accounts for the various types of leaves taken and accumulated leave balances. Data from the payroll system is used by District managers to control payroll and benefit costs. OIA's work with the T&L and payroll data was limited to transactional testing to ensure compliance with policies and procedures for various payroll costs and leaves taken by employees.

Objectives and Scope

The objectives of this review were:

- Verify the ASB Fund operates in compliance with the applicable laws, regulations, and District policies and procedures.
- Determine whether TMS complied with the requirements of the P-Card program and the spending limitations placed on the P-Card.
- Verify that TMS complied with the requirements, policies, and procedures for the use and recording of payroll and leave costs incurred by employees.
- Verify that all requests for additional pay were supported and approved prior to entry into the payroll system.

This review included the period 1 July 2013 through 30 June 2014. When necessary, we expanded the scope of the review to meet our objectives.

The procedures that we applied to the data presented to us by TMS were not sufficient to constitute an audit in accordance with generally accepted government auditing standards. The scope of our work was not sufficient to express, and we do not express, an opinion on the completeness and accuracy of the

TMS data for the ASB Fund, P-Card, and the payroll transactions as a whole. Had we conducted an audit in accordance with generally accepted government auditing standards other matters may have come to our attention that we would have reported to you.

Improved Compliance with Applicable Laws, Regulations, Policies and Procedures Is Necessary

TMS did not have internal controls in place which provide a reasonable assurance of compliance with applicable laws, regulations, policies and procedures. We identified that both the ASB Fund and the P-Card were inappropriately used for the purchase of gift cards for student awards. The absence of controls to ensure timely reviews of dormant ASB Fund activity accounts resulted in \$1,539 not being transferred to the ASB General Fund for the benefit of the student body as a whole. The absence controls to ensure that the required annual inventories of saleable merchandise and lack of operating budget and approvals for fundraisers distorted the financial results of the ASB Fund. As a result of these compliance issues TMS cannot provide a reasonable assurance that the ASB Fund operated in accordance with the District's policies and procedures and that the P-Card was used in compliance with the District's policies.

The management of SDUSD and TMS are responsible for establishing an environment that supports internal controls and ensures that the District complies with the applicable laws, regulations, policies and procedures.

The U.S. Government Accountability Office (GAO) defined internal control for governments as:¹

Internal Control is a process effected by an entity's oversight bodies, management, and other personnel, and provides a reasonable assurance that the objectives of the entity will be achieved. These objectives and related risks can be broadly classified into one or more of the following categories:

- **Operations** – Effectiveness and efficiency of operations
- **Reporting** – Reliability of reporting for internal and external use
- **Compliance** – Compliance with applicable laws, regulations, policies and procedures.

¹ U.S. Government Accountability Office (GAO); *Internal Control Standards for the Federal Government*; Report Number: 14-704G; September, 2014.

GAO, in the same report, further explains that:

Internal control is not one event but a series of actions that occur throughout an entity's operations. Internal control is recognized as an integral part of the operational processes management uses to guide its operations rather than as a separate system within an entity. In this sense, internal control is built into the entity as part of the organizational structure to help managers achieve the entities objectives on an ongoing basis.

As the lead manager for TMS, the Principal is responsible for ensuring that the systems of internal control are present, functional, and meeting the school's needs. Further, the Principal is responsible for taking the District's policies procedures and adopting them to fit within the school's operations and systems of internal control.

Inappropriate Expenses Paid from the ASB Fund and the P-Card program

TMS purchased a total of \$2,419 in gift cards and personal purchases from the ASB Fund and through the use of the TMS P-Card. TMS staff did not appear to be aware that the gift cards and personal purchases were prohibited by the District's AP 2518, *Payment of Expenses for Social Activities*, and the *Purchasing Card Procedures Manual (Manual)*. As a result, TMS violated District policy with these purchases, denied itself the use of \$419 in appropriated funds, and made the TMS personally liable for the inappropriate use of the ASB Fund for these purchases.

AP 2518 §§ C.6 and C.6.f state respectively that:

*Expenses for the following are prohibited and **will not** be reimbursed. The approving manager will be held personally responsible for the expenses. (Emphasis provided)*

Awards, flowers, or gifts for employees, including gift cards or gift certificates.

AP 2518 § C.3.a does provide for the purchase of student awards through the use of the Revolving Cash Fund. However, the purchase of gift cards is not expressly permitted by the AP for students.

The TMS ASB Fund purchased \$2,005 of gift cards for student awards from Bookstar and Target. The funding for this purchase came from a donation by Collins Development to note student academic achievement. The acceptance of the donation from a nondistrict organization cannot override the District's policies

and procedures that restrict or prohibit certain types of purchases. Table 2 provides additional detail for these purchases.

Table 2: Inappropriate ASB Purchases

<i>Date</i>	<i>Check No.</i>	<i>Description</i>	<i>Amount (\$)</i>
3 Jun 14	1643	Bookstar Gift Cards – Student Rewards	1,680.00
6 Jun 14	1647	Target Gift Cards – Student Rewards	325.00
Total Inappropriate ASB Purchases			2,005.00

Source: OIA analysis of ASB Fund purchases.

Testing of the P-Card transactions also identified gift card and personal purchases on behalf of the TMS PTA (Parent Teacher Association). The purchases also involved the purchase of gift cards for student awards.

The use of the P-Card to purchase gift cards for students is specifically prohibited by the *Manual* (page 6); which states in part that:

Items for personal use of the staff or students, such as gifts, gift cards, flowers, etc. See District procedure 2518 for guidelines on proper purchases of awards or rewards for students and documentation requirements. Violations of procedure will result in immediate and permanent revocation of cardholder privileges. (Emphasis provided)

Additionally, the *Manual* prohibits the use of the P-Card to purchase items on behalf of the ASB Fund, PTA, or outside foundation. These organizations are independent of the schools and purchases cannot be made on their behalf. According to the *Manual*, the cardholder’s privileges will be revoked. Table 3 provides additional detail for these purchases.

Table 3: Prohibited P-Card Purchases

<i>Date</i>	<i>Vendor</i>	<i>Description</i>	<i>Amount (\$)</i>
23 Jan 14	Smart and Final	11 Gift Cards - \$10 each	110.00
	Subway	1 Gift Card - \$10	10.00
	Subway	4 Gift Cards - \$10 each	40.00
	Wal-Mart	15 Gift Cards - \$10 each	150.00
	McDonalds	5 Gift Cards - \$10 each	50.00
	Jamba Juice	5 Gift Cards - \$10 each	50.00
	Wal-Mart	Personal Charge - Popsicles	3.92
Total Prohibited P-Card Purchases			413.92

Source: OIA analysis of P-Card transactions

TMS was reimbursed by the PTA on 14 March 2014 with check for \$454.90. In using the P-Card in this manner TMS was denied the use of \$414 of its appropriated funds budget.

Absence of Timely Review of ASB Activity Accounts

TMS did not conduct timely reviews of the inactive student activity accounts within the ASB Fund. Accounts inactive for one year or more remained open on the ASB Fund records. As a result, the TMS students were denied the use of the \$1,539.

The ASB Fund is to benefit the current students and the student body, as a whole, enrolled at a school. Inactive student activity fund accounts restrict the ability of the ASB to use all of its funds to support the school's extra-curricular activities and other student needs.

AP 2225, *Administration of Student Body Funds*, § C.6.n mandates the review of student body activity accounts that are inactive for one year or more. The review is to be completed by the principal, or designee, and the student council. The results of the review are to be included in the student council minutes and with the approval of the student council and principal the accounts are to be closed and the remaining balance transferred to the ASB General Fund.

The review provides the students with an opportunity to petition the student council to provide an explanation for the account's dormancy and keep the account open. Additionally, it provides the students with the opportunity to identify additional funds that could be used to support the student body as a whole. Table 4 provides a listing of the accounts and the balances that OIA identified as inactive for one year or more as of 30 June 2014.

Table 4: Dormant ASB Fund Activity Accounts

<i>Account</i>	<i>Title</i>	<i>Amount (\$)</i>
2226	ASB Trip	785.25
2506	Stars Club	26.93
2509	Best Buddies	232.29
2511	Avid Booster	494.08
<i>Total Inactive Account Balances</i>		1,538.55

Source: OIA analysis of ASB Fund accounting records

Merchandise Inventory Not Taken at Year-end

The required annual merchandise for resale inventories were not taken at TMS for FY-13 and FY-14. The inventory serves several purposes including: determining the items and quantities to be ordered for the next school year, the amount of inventory shrinkage that occurred during the year, the financial position of the Student Store and the ASB, as a whole.

AP 2360, *Inventory of Student Body Merchandise*, § C.2.a requires an annual year-end inventory of the merchandise be taken. The inventory is supervised by the Student Store advisor or the financial clerk. Students other than those who work in

the store may be used to conduct the physical counts of the merchandise. The inventory should be a complete count (wall-to-wall inventory) of all the merchandise available for sale. The summarized results of the inventory are entered into the accounting records and used in part to determine the financial position of the Student Store and the ASB.

Absence of ASB Operating Budget and Approvals for Fundraising Activities

Our work found that TMS did not have an annual operating budget in place for the ASB Fund. Also, TMS did not retain all of the fund raising requests and fund raising approvals to support the ASB's activities. As a result, TMS cannot provide a reasonable assurance that it complied with the policies and procedures regarding the operation of the ASB Fund and that it reviewed, approved, and controlled the fund raisers on behalf of the ASB and the school.

AP 2227, *Student Body Budget*, requires that the ASB Fund develop an annual operating budget, and outlines the process that schools are to follow to develop this budget. The process includes the formation of a budget committee that includes students from the Student Council, the ASB Advisor, faculty members, the school's financial clerk, and a representative from the school's management. This committee is charged with developing a draft ASB budget by 1 May and having the final budget approved by the principal and in place not later than 1 October.

Without an annual operating budget the students, activity advisors, the ASB Advisor, and TMS management cannot reliably determine whether the ASB activities are operating within available resources. The operating budget with current results will allow for informed determinations on changes that need to be made in the budget levels of student activities to adjust for overages and short falls.

Retention of the documentation for the fundraisers requested and approved by the Principal is critical to demonstrating that all of the fundraisers on behalf of the ASB Fund or the school were appropriate and authorized and that the fundraising receipts have been accounted for. AP 2265, *Student Body Fundraising*, AP 9325, *Activities by Foundations, Booster Clubs, and Other Nondistrict Organizations*, and AP 9326, *Activities by Foundations, Booster Clubs, and Other Nondistrict Organizations (No School Proceeds)* require that fundraisers be documented through the request process and approval by the principal before the event occurs. AP 2265 and AP 9325 also require an accounting of the receipts be provided to support the

fundraising request and the amounts turned over to the ASB Fund or the school.

Required Signatures and Documentation Missing

As part of this review we tested the ASB requisitions and checks to ensure that TMS provides a reasonable assurance that it maintains and safeguards the required documentation and all approval signatures are obtained prior to the commitment of ASB funds. AP 2437, *Student Body Requisitions and Purchase Orders*, § C.2.a requires that a requisition be prepared and maintained for all student body checks drawn on the ASB Fund. The requisition must be signed by the authorized student body representative, the ASB advisor or activity sponsor, and the principal.

In our review of the ASB requisitions we found that TMS was not able to provide a reasonable assurance that it complied with AP 2437. In our sample we identified 60 required signatures were missing from the requisitions. The following table provides additional detail on the missing signatures.

Table 5: Requisitions without Required Signature

<i>Requisition Missing Signatures</i>	<i>Instances</i>
ASB Student Body representative	14
ASB Advisor or Activity Sponsor	10
Person Preparing the Requisition	35
Principal	1
<i>Total Missing Signatures from Requisitions</i>	<i>60</i>

Source: Analysis of ASB Fund documentation

Also, our testing disclosed that requisitions were not available to support the student body checks issued from the ASB Fund. We identified five checks with a value of \$2,083 for which requisitions were not available. Table 6 provides additional detail on these checks

Table 6: Student Body Checks without Requisitions

<i>Check Date</i>	<i>Check Number</i>	<i>Amount (\$)</i>
18 Dec 13	1597	7.99
12 Feb 14	1613	2,000.00
10 Jun 14	1653	17.00
10 Jun 14	1654	17.00
12 Jun 14	1657	40.00
<i>Total Checks without Requisitions</i>		<i>2,082.99</i>

Source: Analysis of ASB Fund documentation

Recommendations

1. OIA recommends that the CFO and the CHRO determine whether the TMS Principal should be held personally liable for the ASB funds that were inappropriately disbursed. Based on the determination, appropriate corrective action should be taken.

We recommend that the TMS Principal take the following actions to improve TMS compliance with the applicable laws, regulations, policies and procedures.

2. Advise the TMS cardholder and approving official of the prohibitions on the use of the P-Card for the purchase of student awards, including gift cards, and allowing another non-SDUSD organization to use the P-Card to obtain goods, despite reimbursement of the purchase.
3. Review with the TMS Student Council all the ASB Fund activity accounts that have been inactive for one year or more, determine the accounts that should be closed to the ASB General Fund; document the results of the review in the Student Council minutes, and close the accounts to the General Fund once Student Council approval is obtained.
4. Require the Student Store Advisor or the Financial Clerk to conduct a year-end complete merchandise inventory for all resale items and record the results in the ASB Fund financial records prior to the close of FY-15.
5. Establish an ASB Fund Operating Budget Committee (Committee). Mandate the Committee develop the draft and final budgets within the required timelines.
6. Implement an ASB Fund operating budget for SY-16.
7. Require that the Financial Clerk retain the original fund raising requests and all signed approvals for all fundraisers in which the ASB Fund or TMS receives any benefits including from nondistrict organizations.

Significant Improvements in Documentation, Processing and Review of Transactions

TMS could not support \$2,740.00 in additional pay costs due to missing documentation (\$304) or the hours were not authorized (\$2,436). We found another 1,727 hours of various leave charges that were either not entered into the payroll system (702), the hours were not authorized (351), or documentation was not available (674). Also, we identified that eight percent of the timecards, that we tested, were inaccurate, incomplete, or not signed by the preparer or the authorizer. TMS could not provide us with 25 percent of the FY-14 *Audit Paid to Reported Time Reports* that we requested. Additionally, AP 7236 does not align with the current business process for processing payroll.

Further, in our review of P-Card charges we found that charges of \$2,587 were not supported with original documentation required by the *Manual*. These charges represented 15 percent of the total FY-14 charges of \$17,409 on the P-Card.

The GAO report *Standards for Internal Control in the Federal Government* discusses the need for controls in the areas of

processing transactions and documentation. GAO states:²

Internal control and all transactions and other significant events need to be clearly documented, and the documentation should be readily available for examination. The documentation should appear in management directives, administrative policies, or operating manuals and may be in paper or electronic form. All documentation and records should be properly managed and maintained.

Transaction and other significant events should be authorized and executed only by persons acting within the scope of their authority. This is the principal means of assuring that only valid transactions to exchange, transfer, use, or commit resources and other events are initiated or entered into. Authorizations should be clearly communicated to managers and employees.

Transactions should be promptly recorded to maintain their relevance and value to management in controlling operations and making decisions. This applies to the entire process or life cycle of a transaction or event from the initiation and authorization through its final classification in summary records. In addition, control activities help to ensure that all transactions are completely and accurately recorded.

SDUSD developed APs related to the documentation and processing of employee T&L charges in the payroll system. These APs include AP 2600, *Payroll and Time Reporting*, and AP 7236, *Additional Hourly Assignments for Contract Teachers*. Specifically, AP 2600 § C.3.b requires that principals establish procedures for the:

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

Additionally, AP 2600 § D.1 requires, “*All original timecards, leave forms, and signed audit reports must remain on file for three (3) years, plus the current year (a total of four (4) years).*”

² U.S. Government Accountability Office, formerly the General Accounting Office; *Standards for Internal Control in the Federal Government*; Report Number: AIMD-00-21.3.1; November 1999.

AP 7236 § C.2.a states, “Only teachers specifically approved for compensation shall be paid.” Section C.3.c of the same AP mandates, “Approval in writing for appropriate division head/instructional leader must be obtained (D.1) before teachers are employed to perform services covered by this procedure.”

Timecards and Authorizations Not Available to Support Additional Pay Hours

TMS did not have effective systems of internal control that ensures that all timecards supporting charges for additional pay were retained, and that all additional pay costs entered into the payroll system were authorized. As a result, TMS could not provide us with assurance that \$2,650 of additional pay cost was necessary and appropriate.

The timecards supporting \$304 (16.75 hours) of additional pay costs were not available during our fieldwork. Without the timecards OIA cannot determine whether the charges were appropriately incurred and that the individual who received the additional pay was assigned and worked the hours.

The Principal did not authorize \$2,346 of additional pay costs incurred by TMS during the fiscal year. Without the authorization TMS cannot provide a reasonable assurance that the additional costs were necessary and appropriate and that the additional pay hours and costs entered into the payroll system were warranted. Table 7 provides a summary of the hours and costs that were not authorized by the Principal.

Table 7: Unauthorized Additional Pay Hours and Costs

TRC	Additional Pay Type	Hours	Amount (\$)
EXTRA	Extra Hours	1.50	22.50
PTCL	Prime Time Classroom - Hourly	26.75	1,526.60
SAT	Saturday School	10.00	583.25
WKC	Workshop – Certificated	8.00	164.56
WPS	Teacher Working Prep	1.00	49.36
Total Unauthorized Additional Pay Hours		47.25	2,346.27

Note: TRC (time reporting code)

Source: Analysis of payroll costs and supporting documentation

Absences and Leaves Not Consistently Recorded and Authorized

GAO in its publication, *Maintaining Effective Control over Employee Time and Attendance Reporting*, states in part that:³

Controls over T&A information should provide reasonable assurance that such information (1) is recorded completely, accurately, and as promptly as practicable, (2) relates to

³ U.S. Government Accountability Office (GAO), formerly the U.S. General Accounting Office; *Maintaining Effective Control over Employee Time and Attendance Reporting*; Report Number: GAO-03-352G; January 2003.

authorized individuals, (3) reflects actual work performed and leave taken or other absences during authorized work hours and periods, (4) is sufficiently detailed to allow for verification, (5) complies with legal requirements, and (6) is supported by recorded evidence of supervisory review and approval.

Our testing identified that TMS does not have processes in place that assure all absences and leaves are authorized by the Principal and recorded timely in the payroll system. Further the process used by TMS, at the time of the audit, did not comply with AP 2600, *Payroll and Time Reporting*, § C.3.b which states 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)

OIA’s testing identified 89 instances where the absences and the use of various types of leave were not recorded in the payroll system. These 89 instances impacted 31 TMS employees, 69 percent of the total TMS staff. Table 8 summarizes the unrecorded absences identified during FY-14.

Table 8: Unrecorded Absences

<i>TRC</i>	<i>Leave Type</i>	<i>Instances</i>	<i>Hours</i>
BRV	Bereavement Leave	1	8.00
DBSPD	District Business – Professional Development	76	608.00
JUR	Jury Duty	1	8.00
PRB	Personal Business	1	6.00
PRN	Personal Necessity	1	8.00
SLF	Sick Leave – Full	8	56.00
VAC	Vacation	1	8.00
Total Unrecorded Absences		89	702.00

Source: Analysis of payroll charges and supporting documentation

The TMS system for processing the payroll, during the audit period did not ensure that the use of the various leaves requested by the staff was authorized timely by the Principal. Without the authorization, TMS cannot reasonably assure that the leave was appropriate and the correct type of leave was reported.

Table 9 provides a summary by category of leave the hours that were not authorized but processed by TMS.

Table 9: Leave Hours Not Authorized

<i>TRC</i>	<i>Type of Leave Requested</i>	<i>Hours</i>
CRT	Court Appearance – Witness Subpoena	8.00
DSPD	District Business – Professional Development	96.00
FLH	Floating Holiday	5.00
PPI	Professional and Business Improvement	8.00
PRB	Personal Business	6.00
PRN	Personal Necessity	6.00
SLF	Sick Leave – Full	46.00
VAC	Vacation Leave	176.00
<i>Leave Hours Requested, Paid, But Not Authorized</i>		<i>351.00</i>

Source: Analysis of payroll charges and supporting documentation

Payroll Documentation Not Available

TMS did not retain leave requests for 674 hours of leave that were charged in the payroll system. Further, they did not retain 25 percent of the *Audit Paid to Reported Time Reports* that we requested during our fieldwork. As a result, we concluded that TMS did not comply with AP 2600 § D.1.b requires TMS to retain all original time cards, leave forms, and signed audit reports must remain on file for four years (current year and three additional fiscal years).

Table 10 summarizes the hours recorded in the payroll system for which TMS could not provide the leave requests.

Table 10: Missing Leave Requests

<i>TRC</i>	<i>Leave Entered in Payroll System</i>	<i>Instances</i>	<i>Hours</i>
BRV	Bereavement	1	8.00
CPE	Compensatory Time Earned	1	1.00
DBSPD	District Business – Professional Development	17	136.00
FLH	Floating Holiday	1	6.00
JUR	Jury Duty	1	6.00
LHS	Sick Leave – Half Pay	4	22.25
PPI	Personal and Professional Improvement	2	16.00
PRB	Personal Business	19	122.50
PRN	Personal Necessity	6	40.00
RH	Religious Holiday	2	16.00
SLF	Sick Leave – Full Pay	34	242.55
SLH	Sick Leave – Half Pay	1	8.00
VAC	Vacation Leave	7	50.00
<i>Total Missing Leave Requests and Total Hours</i>		<i>96</i>	<i>674.30</i>

Source: Analysis of payroll charges and supporting documentation

The review and authorizing of the *Audit Paid to Report Time* report is a detective control that is designed to verify that the entries into the payroll system were accurate, appropriate and supported with timecards and leave requests. By signing this report the principal validates the data entered (AP 2600 § C.3.b). The signed report provides evidence that the principal states that the data entered into the report is accurate and that all leave transactions are authorized to be best of their knowledge.

OIA attempted to review the signed *Audit Paid to Report Time* reports for our audit period. TMS was unable to provide 25 percent of the reports that we requested. Without these reports the TMS Principal is unable to demonstrate that he has reviewed the amounts entered into the payroll system with the supporting data to ensure its accuracy and completeness.

Timecards Do Not Appear Reliable

Employee timecards are the backbone of the payroll system. They provide data on the employee's attendance, hours worked, and leave(s) taken. Timecards are the primary document supporting the hours and paid-time-off (PTO) entered into the payroll system.

OIA tested 1,547 timecards for accuracy and completeness. These tests included validation that (1) the employee's signature was present, (2) sign-in and out times were included and accurate, the timecard was free of coding errors or the errors were corrected, (3) explanation for leave taken was provided, and (4) the timecard was signed by the employee and the TMS Principal. Our tests found that 122 (8 percent of the population) had one or more errors in the cards. As a result, we concluded that the TMS Principal did not comply with the requirements of AP 2600 § C.3.b requiring prompt and accurate reporting of assignments, time worked, signing-in/out, employee absences.

AP 7236 Does Not Align with the Current Business Process

The APs outline the process and procedures that the staff and managers follow in managing events and processing transactions. The processes and requirements in the AP should match to the extent possible the business process that is followed for that event or transaction. This can reduce the gaps in matching the old procedures with the new processes and controls. APs also function as a reference and training guide for new SDUSD employees or employees that are new to the position. Also the APs serve as a reference for other employees who may need to review a specific procedure.

We found AP 7236 does not appear to match the current business process used for reporting T&L charges to the payroll system. The AP was last amended in 2003 and the current payroll system was brought online subsequent to the AP revision.

Documentation of P-Card Transactions Did Not Comply with the Policies

TMS did not consistently obtain and retain original receipts to support all the P-Card transactions. Our review of the FY-14 transactions found in 30 instances, representing 15 percent of the total amount charged to the P-Card, original documentation was not obtained or retained to support the transactions.

The P-Card *Manual* requires that original receipts be obtained for all P-Card transactions. For purchases made via telephone, fax, or the internet the purchaser/cardholder must request that the original receipt be included with the merchandise when it is shipped. The *Manual* places the responsibility on the approving official to ensure that all transactions have the original receipts as support. Further, the approving official is responsible for assuring that the receipts are safeguarded for five years.

Table 11 provides a listing of the P-Card transactions that we identified as not having the original receipts as required by the *Manual*.

Table 11: P-Card Charges without Original Receipts

<i>Date</i>	<i>Vendor</i>	<i>Support</i>	<i>Amount (\$)</i>
19 Sep 13	Vons	Merchant Detail – Not Original	20.73
9 Oct 13	Vons	Merchant Detail – Not Original	10.00
15 Oct 13	Smart and Final	Original receipt not on file	31.59
17 Oct 13	USPS	Original receipt not on file	5.25
28 Oct 13	Vons	Original receipt not on file	68.14
4 Nov 13	Smart and Final	Original receipt not on file	122.57
17 Nov 13	Office Depot	Original receipt not on file	32.38
19 Nov 13	USPS	Original receipt not on file	5.25
5 Dec 13	Office Depot	Original receipt not on file	250.53
5 Dec 13	Costco	Original receipt not on file	46.79
12 Dec 13	Xump.com	Original receipt not on file	52.80
12 Dec 13	Office Depot	Original receipt not on file	79.50
20 Dec 13	Price Choper - Wristband	Original receipt not on file	195.00
20 Dec 13	Stamp Connection	Original receipt not on file	55.95
7 Jan 14	USPS	Original receipt not on file	5.25
11 Jan 14	Amazon.com	Original receipt not on file	481.92
13 Jan 14	Commusa	Original receipt not on file	385.56
17 Jan 14	USPS	Original receipt not on file	5.25
23 Jan 14	Smart and Final	Original receipt not on file	187.24
23 Jan 14	Subway	Original receipt not on file	10.00
23 Jan 14	Subway	Original receipt not on file	40.00
23 Jan 14	Wal-Mart	Original receipt not on file	150.00
23 Jan 14	Wal-Mart	Original receipt not on file	8.22
23 Jan 14	Wal-Mart	Original receipt not on file	3.92
23 Jan 14	McDonalds	Original receipt not on file	50.00
23 Jan 14	Jamba Juice	Original receipt not on file	50.00
23 Jan 14	Office Depot	Original receipt not on file	62.43
3 Feb 14	USPS	Original receipt not on file	5.25
5 Feb 14	Commusa	Original receipt not on file	59.41
5 Feb 14	Demco	Original receipt not on file	106.45
<i>P-Card Charges without Original Supporting Documentation</i>			<i>2,587.38</i>

Note: USPS (United States Postal Service)

Source: Analysis of P-Card charges and supporting documentation.

Recommendations

OIA recommends that the TMS Principal take the following corrective actions:

8. Require the timekeeper to complete *Time Correction Notices* for all absences and leave that were not recorded or properly recorded in the payroll system.
9. Mandate that all staff fully and accurately complete timecards to support the hours worked and the hours expended in various leave and PTO categories.
10. Require the timekeeper to ensure that all timecards are complete, accurate to the best of their knowledge, and signed by the employee.
11. Sample the underlying timecards and leave authorizations as part of the review of the *Audit Paid to Reported Time* report.
12. Establish, with the timekeeper, procedures and practices to retain and safeguard documentation supporting the data entered into the payroll system and the reports generated by the payroll system and supplied to TMS.
13. Require that the P-Card holder and the approving official comply with the *Manual's* requirements that all transactions be supported with original documentation. Further, this documentation be retained for five fiscal years following the transaction.
14. Develop procedures that require the approving official to ensure that all P-Card transactions comply with the *Manual's* requirements. Periodically review the P-Card transactions for compliance with the *Manual*, document any exceptions found, and take corrective action as needed.
15. OIA recommends that the CFO and the CHRO revise AP 7236 to align its requirements with the current business processes followed by the T&L system.

Officials' Responses and Our Evaluation

We provided a draft of this report to the CFO, CHRO, and the TMS Principal for their review and comments, which are reprinted in Appendixes I and II respectively.

With respect to the first recommendation, the CFO and the CHRO provided oral comments that agreed with the recommendation. Further the CFO in a written reply, expects to complete corrective action by 30 June 2015.

With respect to the 13 recommendations addressed to the TMS Principal, the response indicated that he generally concurred with our recommendations and stated that corrective action would be taken.

The Principal did not agree with our recommendation to CFO and CHRO regarding the expenditure of ASB funds. During our discussions related to the report and this response we were not provided with additional data that caused us to change our position.

In our opinion, the Principal's planned corrective actions when completed will be sufficient to correct the causes of the conditions that we found.

Contributor

Ines Abitria, an OIA Auditor, is the principal auditor and contributor to this report.

Copies of this final report will be provided to the Board of Education, the Audit and Finance Committee, the Superintendent, the General Counsel, the Chief of Staff, Area Superintendent, Area 3, and the Executive Director, Quality Assurance. An electronic copy of this report will be posted on the District's webpage at <http://www.sandi.net/Page/29706>. Should you or your staff have any questions, please contact me at jcashmon@sandi.net or at 619.725.5696 or Ines Abitria at iabitria@sandi.net or at 619.725.5695.




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 – TAFT MIDDLE SCHOOL:
REVIEW OF SELECTED FINANCIAL OPERATIONS**

The Chief Financial Officer concurs with the intent of the recommendation. The Fiscal Control department will take appropriate action based on the facts and circumstances surrounding the the disbursement of the Associated Student Body funds by the Taft Middle School authorized procurement card cardholders and approvers. The corrective action will be completed by June 30, 2015.

JS:cl

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APPENDIX II –Response from the Principal, Taft Middle School

Principal, William H. Taft Middle School
March 30th, 2015

Director, Internal Audit
SDUSD

Response to Audit:

I appreciate the audit and the information it yields. We have used this information to address the issues identified in our financial operations. This audit was performed in the first year of my principalship at Taft. I learned quickly that we had many processes that were not functioning well and set about correcting them. This proved difficult as we had three people in the financial clerk position during the school year and two people in the school secretary position, one of whom was retired and substituting but had a wealth of experience and was instrumental in correcting many of the issues discovered when the permanent employee left.

Myself, the vice principal, and the school secretary met with the auditor and the new director of internal audit in my second year as principal. I was surprised at the number of issues found in the audit, but pleased to know that we had already corrected many of them. In this meeting all agreed there were mistakes made and that there was no intent to misuse money nor time. This is why it came as such a surprise to me to see the personal liability language used in one of the two recommendations made jointly by the Office of Internal Audit to the CFO and CHRO. The director of internal audit stated that the language was included because it is in an Administrative Procedure. Yet the second recommendation made to the CFO and CHRO suggested changing an Administrative Procedure to reflect current business practices. It is my understanding that the personal liability language is being used for the first time in an SDUSD audit. I was disheartened to learn that despite the determination that there was no personal liability, the language was left in the recommendation. My integrity is paramount to me, and unless all of the responses are read this language may bring my integrity into question. I cannot overstate my disappointment that this will be included in the first public document of my principalship.

There were 13 recommendations made to the Taft Principal, which I will respond to by number as used in the report.

2. I agree with the recommendation and it has been completed.

APPENDIX II –Response from the Principal, Taft Middle School

Response to Audit
Page 2

3. I agree with the recommendation. Principal to coordinate with financial clerk and ASB advisor by close of school year.
4. I agree with the recommendation. Principal to coordinate with the financial clerk by the close of the school year.
5. I agree with the recommendation. Principal to coordinate with the ASB advisor for the start of the 15-16 school year.
6. I agree with the recommendation as stated.
7. I agree with the recommendation. Principal to coordinate with financial clerk and ASB advisor by close of school year.
8. I agree with the recommendation. This has been completed to the best of our ability.
9. I agree with the recommendation. This has been clearly stated, multiple times, to staff. Principal and timekeeper to continue monitoring and correcting as needed.
10. I agree with the recommendation as stated.
11. I agree with the recommendation. Principal to work with timekeeper to monitor.
12. I agree with the recommendation. This was implemented by the timekeeper at the time of the audit review. Principal to work with new timekeeper to continue procedures.
13. I agree with the recommendation as stated.
14. I agree with the recommendation. Card holder and approving official have reviewed manual, further questions will be directed to the Office of Internal Audit.

