MEETING AGENDA
Board Audit Committee
6:00 PM
August 23, 2016
East Side Union High School District Education Center
Superintendent's Conference Room
830 North Capitol Avenue
San Jose, CA 95133-1398

In compliance with the Americans with Disabilities Act, if you need special assistance, disability-related modifications or accommodations, including auxiliary aids or services, in order to participate in the public meeting of the Audit Committee, please contact the office of the District Superintendent at (408) 347-5011. Notification 72 hours prior to the Special Meeting will enable the District to make reasonable arrangements to ensure accommodation and accessibility to this meeting. Upon request, the District shall also make available this agenda and all other public records associated with this meeting in appropriate alternative formats for persons with a disability.

1. **Call to Order/Roll Call**

2. **Introductions**

3. **Adopt Agenda**

4. **Special Order of Business**
   Individuals may be permitted to present an item out of order on the agenda to accommodate their schedules.

5. **Public Comments**
   Members of the public may address the Audit Committee on any subject not on the agenda; however, provisions of the Brown Act (Government Code 54954.2(a) and 54954.3) preclude any action. As an unagendized item, no response is required from the Audit Committee or district staff and no action can be taken; however, the Committee may instruct the Chair to agendize the item for a future meeting.

6. **Approval of Minutes**
   Action: Minutes from the April 4, 2016, meeting will be presented for approval.

<u>Chair / Vice Chair</u>

7. **Discussion/Action: Updates**
   Pattie Cortese, Chair, and Van Le, Vice Chair, will provide update.

<u>Senior Manager of Internal Controls</u>

8. **Discussion/Action: Cash Handling and Associated Student Body (ASB)**
   Kelly Kwong, Senior Manager of Internal Controls, will provide an update on ASB matters.

9. **Discussion/Action: ASB Loss Not Covered by Insurance**
   Kelly Kwong, Senior Manager of Internal Controls, and Michael Reed, Activities Director Piedmont Hills High School, will report on previous monetary loss in ASB that was not covered by insurance.

10. **Discussion/Action: Fraud, Waste and Abuse Hotline**
    Kelly Kwong, Senior Manager of Internal Controls, will report on the status of the Fraud, Waste and Abuse Hotline.

11. **Discussion/Action: Internal Audit Reports**
    Kelly Kwong, Senior Manager of Internal Controls, will present the internal audit reports
    A. FY17-01 Facilities Rental: Custodial Hours Audit Report
    B. FY17-02 Facilities Rental: Revenue versus Cost Audit Report
    C. FY17-03 Staff Time Charged to Bond Audit Report

12. **Discussion/Action: Proposed Annual Audit Work Plan**
    Kelly Kwong, Senior Manager of Internal Controls, will present the Proposed Annual Audit Work Plan for 2016-17.

External Auditor

13. **Discussion/Action: Annual Audit 2015-16**
    Joyce Peters, Partner at Vavrinek, Trine, Day & Co., LLP, will present an update from interim testing.

Superintendent / Associate Superintendent of Business Services

14. **Discussion/Action: Payroll Department Operational Efficiency and Comparative Staffing Review**
    Marcus Battle, Associate Superintendent of Business Services, and Jeff Nigro, CPA, CFE, Partner at Nigro & Nigro, LLP, PC, will present the external report Payroll Department Operational Efficiency and Comparative Staffing Review and provide a summary presentation.

Audit Committee Business

15. **Discussion/Action: Future Meetings**
    Audit Committee will scheduled the next meeting for November or December of 2016.

16. **Superintendent Communications/Comments**
    - Chris D. Funk, Superintendent
    - Marcus Battle, Associate Superintendent of Business Services

17. **Audit Committee Member Comments**
    Individual Audit Committee members may report on programs, conferences, meetings attended and/or items of interest to the public. An Audit Committee member may wish to express a concern or observation about a topic not appearing on the agenda, or request items to be scheduled on a future agenda.

18. **Future Agenda Items**

Item	***Date***	***Submitted By***
List of Prequalified Vendors, to include how many are minority owned and how many are women owned	*TBD*	*Chair*
Appoint Subcommittee to review Charter	*Fall (annually)*	*Chair*

19. **Adjournment**

EAST SIDE UNION HIGH SCHOOL DISTRICT
Minutes of Meeting
Unapproved

ITEM 6

Board Audit Committee
April 4, 2016
6:00 PM
East Side Union High School District
Education Center
Superintendent's Conference Room
830 Capitol Avenue, San Jose, CA 95133-1398

1. Call to Order /Roll Call

The meeting was called to order at 6:01 PM by Chair Pattie Cortese.

Committee members present for roll call:
Chair Cortese, Vice Chair Le, Member Berg, Member Juchau, Member Reinke, and Alternate Member Stephens

Staff present:
- *Chris Funk*
- *Marcus Battle*
- *Kelly Kwong*
- *Karen Poon*
- *Andre Bell*
- *John Lawrence*
- *Kathy Lanford*
- *Debbie Ramirez*
- *Mary Guillen*

Presenter present:
- *Joyce Peters, External Auditor – VTD*

Audience present:
- *Nick Leon*
- *Representatives from the Interact Club*

2. Introductions

Chair Cortese extended a welcome to current, reappointed and newly appointed members of the Audit Committee. Committee Members and members of the audience introduce themselves.

- *Board Member Pattie Cortese - Previously served as Vice Chair and is the newly appointed Chair*
- *Board Member Van Le - Newly appointed Vice Chair*
- *Bruce Berg - Reappointed Member*
- *Jon Reinke - Reappointed Member*
- *Frank Stephens - Reappointed Alternate Member*
- *Dan Juchau – Continuing Member*

3. Adopt Agenda

Motion by Member Berg, second by Member Le, to adopt the agenda as presented.

4. Special Order of Business

Individuals may be permitted to present an item out of order on the agenda to accommodate their schedules.

Item number 12 will be heard after item 8.

5. Public Comments

Members of the public may address the Audit Committee on any subject not on the agenda; however, provisions of the Brown Act (Government Code 54954.2(a) and 54954.3) preclude any action. As a unagendized item, no response is required from the Audit Committee or district staff and no action can be taken; however, the Board may instruct the Chair to agendize the item for a future meeting.

There were no public speakers.

6. Approval of Minutes

Minutes from the December 7, 2015, meeting will be presented for approval.

Motion by Member Reinke, second by Member Berg, to approve the Board Audit Committee Minutes of December 7, 2015, as presented.

Vote: 4/0; motion carries

Vice Chair Van Le abstained from the vote

Chair / Vice Chair

7. Discussion/Action: Updates
Pattie Cortese, Chair, and Van Le, Vice Chair, will provide update.

There were no updates were presented under this item.

Senior Manager of Internal Controls

8. Discussion/Action: Cash Handling and Associated Student Body (ASB)
Kelly Kwong, Senior Manager of Internal Controls, will provide an update on ASB matters.

Kelly Kwong, Senior Manager of Internal Controls, shared with the Committee that she conducted a pre-audit prior to the external audit by VTD. She will wait until VTD provides their results on the audit. No other comments were presented under this item.

9. Discussion/Action: Fraud, Waste and Abuse Hotline
Kelly Kwong, Senior Manager of Internal Controls, will report on the status of the Fraud, Waste and Abuse Hotline.

Kelly Kwong reported that the system is still active. There have been no calls or emails received reporting fraud, waste and/or abuse.

Bruce Berg expressed his concern regarding Payroll's retroactive payments in the amount of "cents" to staff members.

10. Discussion/Action: Internal Audit Reports
Kelly Kwong, Senior Manager of Internal Controls, will present the internal audit reports.

Kelly Kwong presented the three reports to the Committee; they are operational focus. There are no plans to do follow up on the reports, as they are operational efficiency as opposed to fraud and/or material dollar items. Kelly will review and determine when these items will be placed back on the agenda for further discussion/updates.

Associate Superintendent Marcus Battle stated that the Business Office will review the reports and see what they can improve for operational efficiency.

Superintendent Chris Funk indicated that Superintendent's Council will review the reports and they will follow up on what has been done with them.

Chair Cortese asked Kelly Kwong to notify the Committee when is the appropriate time to bring the three reports back for further updates on the recommendations.

Comments on the three reports are listed below.

A. FY16-04 Accounts Payable Timeliness

Member John Reinke asked if there was an abuse on the over $100 reimbursements.

Associate Superintendent Marcus Battle indicated that there is no abuse in this area. Site administration is doing a great job in the area of staff reimbursements. Reimbursements over $100 require site administrative approval and his review/approval.

B. FY16-05 Facility Work Orders

Alternate Member Frank Stephens asked if there is the ability to do a root cause analysis on repair items.

Andre Bell indicated that once they consolidate and get the sites to use the same type of equipment, it will be easier to recognize the failure and root cause in specific equipment.

Kathy Lanford made a presentation on the new work orders system. Many departments currently use it. Custodial/maintenance staff have the ability to view work orders via their cell phone. Kathy and John will work with staff to ensure they have the proper protocol regarding the work order process, follow up on outstanding orders, including status/communication regarding the work order.

C. FY16-06 Synthetic Turf Maintenance

Member Juchau expressed his concern regarding the synthetic turf maintenance.

Superintendent Funk stated that there is a timeline and plan in place to ensure the maintenance of the fields.

John Lawrence mentioned that field turf maintenance occurs annually at the sites. Guidelines have been set up, which includes the collection of field turf maintenance reports from the sites. The five new field turfs that were done in 2012 all have new machines. As for the other six sites (fields), the District will need to look at new

machines for those sites. They are getting down to their life cycle; they are eleven to twelve years old.

Superintendent Funk indicated that although the field turf is maintained yearly, there is standard maintenance that must still occur at the sites. They need to identify when and how often it should occur at the sites and timelines for each site so that it can be monitored at the District Office. A plan will be shared with the Committee at a later date.

External Auditor

11. Discussion/Action: Annual Audit 2015-16

Joyce Peters, Partner at Vavrinek, Trine, Day & Co., LLP, will present the 2015-16 engagement letters and the scope of work to be performed for the annual financial audit and the bond audit reports. Also, the results from the recent school site testing will be provided.

Joyce Peters, External Auditor, discussed three areas:

Review of engagement letter: *The wording in the letter is standard wording. It speaks of VTD's responsibility and District management's responsibility. The language in the letter is the same as last year's letter. The standard accounting language has no change; therefore, there is no change in the wording. There are two engagement letters, 11A and 11B. One is for the bond, the other for the District.*

Site visit results: During the interim, a review is performed both at the site and the District. The District visit has not occurred, but four sites were chosen and audited in the area of attendance and ASB, Independence, Piedmont Hills, Foothill and Phoenix High Schools.

Piedmont Hills High School did not have any exceptions in the area of attendance, but exceptions were found in the area of ASB, specifically fundraising. The revenue potential is completed, but the document does not list any overages or shortages. The student store was audited. The daily sales report was not prepared, which is the reason why the site did not reconcile an overage or shortage in their report. This was communicated to the District who then indicated they did not prepare a perpetual inventory.

Independence High School was audited in the area of fundraising. Five revenue potentials of fundraising were selected. All the forms were no completely/properly filled out. They were unable to trace the fundraising amounts to the general ledger. Three out of five samples selected had overages and shortages that were not reported/documented.

Independence High School did not reconcile properly their petty cash. They had an overage of $50.

Foothill and Phoenix High Schools had no exceptions.

Kelly Kwong stated that she works closely with the School-Finance Clerk. She attends the meetings of Activities Directors that is combined with leadership students; they meet monthly. This is an area that they are focusing on, as well as providing training to staff and students.

Superintendent / Associate Superintendent of Business Services

12. Discussion/Action: ASB Fundraising for Outside Organizations

Marcus Battle, Associate Superintendent of Business Services, and Karen Poon, Director of Finance, will present Administrative Bulletin No. 012 on ASB Fundraising for Outside Organizations.

A draft of Administrative Bulletin # 012 was shared with the Committee for their input.

A question was raised on the number of Board Members to approve public donations. Kelly Kwong explained that donations are on the consent calendar and placed on the monthly Board calendar for approval by the Board. Superintendent Funk explained that donations, if already received, are submitted to the Board for ratification. It was also explained that administrative bulletins are instructions to staff. Board Policies are instructions to administration.

A member of the public, Nick Leon, explained to the Committee that the Interact Club is similar to an associated student body (ASB) that is on campus. They are a very active club. They put on events at their site. Sometimes, Interact Clubs from three to four school sites get together to put on an event to raise funds for their project. With the previous bulletin, the funds were marked as ASB funds. Based on the previous conversation, he thought that the intent was to make the process easier for the Interact Club; they put on the event and identify where the fundraising dollars are to be allocated, which is not an outside organization, but a specific Interact project. His interpretation of the bulletin is that a request needs to be submitted and approval must be granted for the project, form of payment must be in by check and money cannot be collected at the door. The money collected would go into a school account and must be depleted in 60 days. He felt it was a little cumbersome.

Superintendent Funk explained that all events must be preapproved. After the event, the money collected is deposited into an account. A check is then issued to Rotary and that account is closed. If there is another approved event a few months later, the money goes into the account and a check is issued to Rotary. These funds are not comingled with ASB funds.

Karen Poon, Director of Finance, explained that it is highly encouraged that checks be made payable to the 501C3 organization, not the ASB account. Checks payable to ASB become ASB funds, not the 501C3, which does not allow the donor to claim the donation on his/her taxes return. Only cash and checks issued to ASB are deposited into an ASB bank account. Checks payable to an outside organization cannot be deposited into an ASB account. The trust account is only for cash deposits, including checks made payable to ASB. Checks made payable to Interact 5170 goes directly to Rotary for deposit.

Superintendent Chris Funk indicated that when the administrative bulletin is formally approved, it will be placed on the intranet for staff to access. It will be emailed to Activities Directors and School-Finance Clerks to share/disseminate the information to all club advisors and clubs.

13. Discussion/Action: Facility Use

Marcus Battle, Associate Superintendent of Business Services, Andre Bell, Director of Purchasing and Capital Accounting, and Debbie Ramirez, Facility Rental Manager, will provide a demonstration and usage analysis of Facilitron, an on-line facility reservation system. Also, a progress update on the recommendations from the Facilities Use Audit Report FY16-01 will be provided.

Associate Superintendent Marcus Battle shared with the Committee that the District's new facilities online system has received great compliments. The work of the sites is much easier. It is a fully automated online rental system.

Debbie Ramirez, Facilities Rental Managers, shared with the Committee that the system has an online calendar that is transparent and open to the public, prices are in the system, and the system is user friendly to its customers. The system allows them to view the availability of a room and it also gives them a rental cost estimate. This is a huge step in the process; it has reduced the rental response wait time. A person can process a claim in two to three days. It is a paperless system. Everything is stored online. The support to use Facilitron has been excellent.

Director Andre Bell mentioned that the District has implemented five out of the six recommendations on the report. The last one is currently pending; it is an amendment to

Board Policy and procedures relative to facilities use. A demonstration/presentation on the Facilitron features was made to the Committee.

Facilitron is paid per a transaction fee that is paid by the user. It is capped at a hundred dollars per a transaction. It is on top of the rental fee.

14. Discussion/Action: Bond Performance Audit

Marcus Battle, Associate Superintendent of Business Services, Andre Bell, Director of Purchasing and Capital Accounting, Julio Lucas, District Architect, will present an update on the progress of the recommendations from the Bond Performance Audit performed by Moss Adams, LLP.

Director Andre Bell provided the Committee with an update on the Bond performance audit. The audit was presented to the Board in January 2016. There were a total of 13 recommendations. Two of the recommendations have already been implemented. Nine are in process. One is under review. One has no action. When the Committee returns to meet in August, most of the recommendations will have been completed.

After some discussion regarding prequalified vendors, Chair Cortese requested a list of prequalified vendors and, out of that list, how many are minority owned and how many are women owned?

15. Discussion/Action: Fixed Asset Audit

Marcus Battle, Associate Superintendent of Business Services, and Andre Bell, Director of Purchasing and Capital Accounting, will present a progress update on the recommendations from the Fixed Asset Audit performed by CPRS Fixed Asset and Inventory Solutions.

Director Andre Bell provided an update on the recommendations from the fixed asset audit. The report was presented at the August meeting. After a discussion with the Information Technology administrator, the purchase of the RFP for fixed assets management system was delayed. The District is going to wait until the District looks for a new financial system. The fixed asset system will be part of the new financial interface system. The District is still on track with asset tagging and asset removal from the QSS system.

Audit Committee Business

16. Discussion/Action: Audit Committee Charter
The finalized revised Audit Committee Charter was approved at the December 10, 2015 Board meeting.

The amendments to the Audit Committee Charter were adopted by the Board of Trustees at their December 2016 Board Meeting.

17. Discussion/Action Future Meetings
Audit Committee has scheduled the next meeting for 6pm on August 23, 2016.

Chair Cortese reminded the Committee of the next scheduled Audit Committee meeting, August 23, 2016, at 6:00 PM.

18. Superintendent Communications/Comments

- Chris D. Funk, Superintendent
- Marcus Battle, Associate Superintendent of Business Services

Marcus Battle announced that the payroll/human resources audit was recently completed. It will be presented to the Committee in August.

19. Audit Committee Member Comments
Individual Audit Committee members may report on programs, conferences, meetings attended and/or items of interest to the public. An Audit Committee member may wish to express a concern or observation about a topic not appearing on the agenda, or request items to be scheduled on a future agenda.

There were no comments by the Committee.

20. Future Agenda Items

The following items were requested for placement on a future agenda:

Item	***Date***	***Submitted By***
List of Prequalified Vendors, to include how many are minority owned and how many are women owned	*TBD*	*Chair*
Payroll / Human Resources Audit	*August 2016*	*Marcus Battle*

Calendared from prior meetings:

Item	***Date***	***Submitted By***
Appoint Subcommittee to review Charter	*Fall (annually)*	*Chair*

21. Adjournment

Chair Cortese adjourned the meeting at 8:08 PM.

Respectfully submitted,

Pattie Cortese
Board Audit Committee Chair

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ITEM 11A

Date: August 17, 2016

To: Pattie Cortese, Audit Committee Chair, and Van T. Le, Audit Committee Vice Chair

From: Kelly Kwong, Senior Manager of Internal Controls

Subject: Facilities Rental: Custodial Hours Audit Report (FY17-01)

EXECUTIVE SUMMARY

Objective

The following reports the observations of an Internal Audit review of custodial hours charged to facility use renters compared against actual services rendered. Question was raised whether a cleaning deposit could replace custodial charges.

Scope / Procedures

Internal Audit conducted several interviews with facility use renters, District staff, principals, associate principals of administration (APAs) and custodians during January 2016 to July 2016 to obtain an understanding of each interviewee's perspective in regards to custodial support for facility use renters.

The following documents were reviewed:

1. Board Policy 1330 Use of School Facilities, November 15, 2012
2. Administrative Regulations 1330 Use of School Facilities, October 18, 2012
3. Administrative Bulletin No. 08 Use of School Facilities, September 17, 2013
4. Collective Bargaining Agreement Between California School Employees Association, East Foothills Chapter #187 and ESUHSD July 1, 2013 through June 30, 2016 (Union Contract)
5. External consultant Prismatic Services' Custodial Services Operational Efficiency Study dated January 2015 and presented to the Board on February 12, 2015, Agenda Item 9.02
6. Several other California school district facility use policies and handbooks available on-line

Auditor's Summary and Conclusion

Process improvements were noted as follows:

1. Clearer Communication and Oversight
2. Customer Value

Please refer to the Process Improvements section of this report for a detailed discussion of items identified and Internal Audit's recommendations to address those items.

Distribution:
Superintendent's Council

1. Clearer Communication and Oversight

There is a wide range of expectations and oversight at each site and for each type of facilities (classroom, theater, soccer field, etc.) and from each person's perspective regarding custodial support to facility use renters. Custodian's assistance for set up, clean up or accessibility to facility use renters ranged widely. Some custodians thought they just needed to unlock and return to lock the site without staying on school property. Whereas, some custodians were given assigned work to do during the scheduled overtime. Work may or may not be for the facility use renter directly. The level of oversight by APAs ranged widely also from overseeing a task list to a hands off attitude. There was also some confusion on whether the District Office versus the school site had the responsibility to communicate and act as the liaison with the facility use renters and/or custodians.

Recommendation
District Office should develop some written guidelines regarding custodial support for facilities use renters. A consistent communication process, possibly a checklist, should be developed to ensure all parties are clear on expectations. Performance feedback should be collected to measure productivity and ensure accountability.

2. Customer Value

It was suggested that the District collect a cleaning deposit instead of charging custodial fees since some facility use renters did not see the value of paying for custodial personnel. For safety and security purposes, it's the District's operational decision and current practice to utilize the custodial position to manage the locks and alarms. The Union Contract guarantees a minimum of three hours for classified overtime work. Industry standard charges facility use renters a minimum of two hours, not three.

Recommendation
District Office should communicate and ensure custodial support is provided beyond keys and alarms to ensure customer value. As noted in the Facility Use Audit Report (FY16-01), District Office should update the facilities use policies to also address custodial fees, locks and alarms for clarity of expectations.

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ITEM 11B

Date: August 17, 2016

To: Pattie Cortese, Audit Committee Chair, and Van T. Le, Audit Committee Vice Chair

From: Kelly Kwong, Senior Manager of Internal Controls

Subject: Facilities Rental: Revenue versus Cost Audit Report (FY17-02)

EXECUTIVE SUMMARY

Objective

The following reports the observations of an Internal Audit review of facilities rental: revenue versus cost.

Scope / Procedures

Internal Audit inquired with District staff and school site personnel during January 2016 to July 2016 to discuss facility rental revenue versus cost.

The following documents were reviewing:

1. Board Policy 1330 Use of School Facilities, November 15, 2012
2. Administrative Regulations 1330 Use of School Facilities, October 18, 2012
3. Administrative Bulletin No. 08 Use of School Facilities, September 17, 2013

Background

In response to the Facility Use Audit Report (FY16-01) dated August 21, 2015, an on-line reservation and payment system was implemented in December 2015 using the vendor Facilitron, Inc.

Auditor's Summary and Conclusion

Direct cost information regarding facility use was not available for review; therefore, Internal Audit does not have a conclusion. The District is in the process of updating all policies as listed above and will provide direct cost information at that time.

Distribution:
Superintendent's Council

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ITEM 11C

Date: August 17, 2016

To: Pattie Cortese, Audit Committee Chair, and Van T. Le, Audit Committee Vice Chair

From: Kelly Kwong, Senior Manager of Internal Controls

Subject: Staff Time Charged to Bond Funds Audit Report (FY17-03)

EXECUTIVE SUMMARY

Objective

The following reports the observations of an Internal Audit review of staff time charged to bond funds during 2015-16.

Scope / Procedures

Internal Audit reviewed Personal Action Reports (PARS) submitted by employees during 2015-16 against the actual salary allocation charged against bond funds. Employees complete PARS to document their daily time on each fund.

Background

During the external consultant Total School Solution's Bond Performance Audit for the fiscal year ended June 2013 report dated September 13, 2013, Director III full time equivalent (FTE) allocation was changed from 1.00 down to 0.90. No other changes were identified.

External consultant Moss Adams LLP Bond Performance Audit for the fiscal years ended June 2014 and June 2015 dated December 11, 2015 did not identify any FTE allocation changes to bond funds.

Auditor's Summary and Conclusion

Based on all the 2015-16 PARS reviewed, the salary allocations charged to bond funds appear reasonable except for one position.

The Senior Manager of Internal Controls FTE allocation to bond fund was 0.65 but actual time spent was less. Actual time spent in connection with bond issues or bond related work in 2015-16 was lower than FTE allocation due to the 2015-16 audit work plan that listed the audit projects.

Senior Manager of Internal Controls FTE allocation to bond fund should be adjusted from 0.65 to a more accurate allocation based on the annual audit work plan and should be re-evaluated each fiscal year.

East Side Union High School District Board of Trustees

Lan Nguyen, President | Frank Biehl, Vice President | J. Manuel Herrera, Clerk | Pattie Cortese, Member | Van T. Le, Member

Chris D. Funk, Superintendent

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ITEM 12

EAST SIDE UNION HIGH SCHOOL DISTRICT
Senior Manager of Internal Controls
Proposed Annual Audit Work Plan
2016-17

1. Adult Education Program Fees
2. Child Care Program Fees
3. Payroll Audit Follow Up
4. District Credit Card
5. Bond Fund
   A. Expenditures and Payment Procedures
   B. Conflict of Interest
6. On-going Projects
   A. Fraud, Waste and Abuse Hotline
   B. School Connected Organizations
   C. Associated Student Body (ASB)
   D. External Audit Support
   E. Administration Requests

Board Meeting: 5/3/16
Item: 6.01

ITEM 14A

EAST SIDE UNION HIGH SCHOOL DISTRICT

PRESENTATION TO THE BOARD
PAYROLL DEPARTMENT REVIEW

EXECUTIVE SUMMARY

- Objective
  - Organizational efficiency
  - Comparative staffing
- Payroll and Human Resources departments
- Methodology
  - On-site interviews
  - Review of documents
  - Surveys of comparable sized districts

COMPARATIVE DISTRICT ADA

Figure 1: Comparative District ADA	
District	**Average Daily Attendance**
Hesperia Unified School District	20,554
Colton Joint Unified School District	22,107
East Side Union High School District	***22,479***
Torrance Unified School District	23,148
Tustin Unified School District	23,279
Chaffey Joint Union High School District	23,335

COMPARATIVE STAFFING LEVELS

Payroll Department						
	Chaffey Joint Union High	**Colton Joint Unified**	**Hesperia Unified**	**Torrance Unified**	**Tustin Unified**	**East Side Union High**
Administrator		Payroll Supervisor (1.0) FTE		Manager - Employee Compensation (1.0) FTE	Payroll Manager (1.0) FTE	Director, Compensation, Benefits & Workers' Compensation (1.0) FTE
Clerical	Clerical Assistant (0.5) FTE					Secretary (1.0) FTE
Staff				Position Control Coordinator (1.0) FTE		Benefits Coordinator (1.0) FTE
	Payroll Technician (3.0) FTE	Accounting Technicians (4.0) FTE	Payroll Specialist (6.0) FTE	Fiscal Services Specialist (3.0) FTE	Payroll Clerk (3.5) FTE	Senior Payroll Specialist (3.0) FTE
Total FTE	**3.5**	**5.0**	**6.0**	**5.0**	**4.5**	**6.0**

COMPARATIVE STAFFING LEVELS

	Human Resources Department					
	Chaffey Joint Union High	**Colton Joint Unified**	**Hesperia Unified**	**Torrance Unified**	**Tustin Unified**	**East Side Union High**
Administrators	Deputy Superintendent (1.0) FTE	Assistant Superintendent (1.0) FTE	Assistant Superintendent (1.0) FTE	Senior Director - Certificated (1.0) FTE	Chief Personnel Officer (1.0) FTE	Associate Superintendent (1.0) FTE
	Director (1.0) FTE	Director (1.0) FTE	Director (1.0) FTE	Director, Personnel Commission (1.0) FTE*	Director (1.0) FTE	Manager, Classified Peronnel (1.0) FTE
	Benefits Manager (1.0) FTE		Assistant Director (1.0) FTE		Human Resources Manager (1.0) FTE	
Clerical	Administrative Assistant (2.0) FTE	Administrative Assistant (2.0) FTE	Executive Secretary (2.0) FTE	Administrative Assistant (1.0) FTE	Office Assistant (2.0) FTE	Administrative Secretary (1.0) FTE
		Human Resources Assistant (2.0) FTE	Department Program Secretary (1.0) FTE	Human Resources Assistant (0.5) FTE	Secretary (1.0) FTE	Department Secretary (1.0) FTE
			Senior Clerk Typist (1.0) FTE	Staff Assistant (0.9) FTE		
Staff	Technicians (6.0) FTE	Coordinators (2.0) FTE - Certificated (1.0) FTE - Classified	Personnel Specialist (2.0) FTE	Human Resources Specialist (4.0) FTE	Personnel Specialist (3.0) FTE	Technicians (6.0) FTE
	Personnel Clerks (3.0) FTE	Technicians (6.0) FTE	Substitute System Specialist (2.0) FTE	Human Resources Technician (1.0) FTE		
			Credential Analyst (1.0) FTE	Credential Specialist (1.0) FTE	Credential Analyst Specialist (2.0) FTE	
				Personnel Analyst (2.0) FTE*		
				Personnel Commission Specialist (1.0) FTE*		
Total FTE	**14.0**	**15.0**	**14.0**	**13.4**	**11.0**	**10.0**

COMPARATIVE STAFFING LEVELS

	Benefits handling					
Reports To:	**Chaffey Joint Union High**	**Colton Joint Unified**	**Hesperia Unified**	**Torrance Unified**	**Tustin Unified**	**East Side Union High**
Director of Risk Management		Benefits Technician (1.0) FTE	Assistant Director (1.0) FTE			
		Risk/Safety & Benefits Assistants (2.0) FTE	Benefits Specialist (1.0) FTE			
Deputy Superintendent, Administrative Services				Manager, (1.0) FTE		
				Benefits Specialist (1.0) FTE		
				Benefits Technician (1.0) FTE		
Personnel	Benefits Director (1.0) FTE				Personnel Specialist (1.0) FTE	
	Personnel Technician (1.0) FTE				Computer Account Specialist (1.0) FTE	
Payroll						Benefits Coordinator (1.0) FTE
Total FTE	**2.0**	**3.0**	**2.0**	**3.0**	**2.0**	**1.0**

MAJOR FINDINGS

1. Some restructuring of both payroll and human resources departments would be beneficial
2. Enhanced communication between both departments is needed to improve efficiency and reduce errors and redundancies
3. Certain processes should be automated in order to improve efficiency and reduce errors

DEPARTMENT STAFFING AND STRUCTURE

- Payroll
  - Currently has 6.0 FTEs
- Human Resources
  - Currently has 10.0 FTEs
- Major Recommendations
  - Restructure payroll department to have a payroll manager or supervisor
  - Benefits and workers' compensation should be handled in either HR or a separate risk management department
  - Consider increased staffing in HR
  - More frequent meetings between departments
  - Written policies

PAYROLL CYCLES AND DEADLINES

- Review current cycle and reporting deadlines
- Put into writing for all staff
- Work with IT to allow greater flexibility
- Automate time card reporting

OPERATIONAL EFFICIENCIES

- Internal audits of employee data
- Make payroll and HR information and forms available on District website or portal
- Make better use of substitute calling system
- Standardize resignation forms
- Standardize absence reporting forms
- Provide annual training

INTERNAL CONTROLS

- System of Checks and Balances
  - Procedures to initiate, approve, execute, record, and reconcile transactions
- Separation of Duties
  - No single employee should have custody of an asset and maintain records of that asset
- Staff Cross-Training
  - More than one employee should be able to perform each job
- Timely Reconciliations
  - Accounting records should be reconciled and compared against supporting documentation

INTERNAL CONTROLS

- Human Resources
  - Has the ability to recruit and hire
  - Enters new employees into payroll system
  - Provides Personnel Action Form to payroll
  - Removes terminated employees from system
  - Assigns substitutes
  - Tracks vacation and other leave time
- Payroll
  - Cannot enter new employees into payroll system
  - Enters key payroll data
  - Process and distribute pay warrants

INTERNAL CONTROLS

- We tested a sample of 60 employees, looking for:
  - Traced pay rate or amount to proper authorization and applicable salary schedule
  - Recalculated gross pay, and traced hours to timesheets, if applicable
  - Determined gross pay is correct, and is properly distributed as to account: fund, object and function
  - Traced earned and taken vacation and sick leave to leave records, if applicable
  - Determined if overtime was approved in accordance with district policy, if applicable
  - Examined personnel file for PAF, board approval, personnel requisition, or other evidence to indicate that employee was properly hired
- No exceptions were found

QUESTIONS?

ITEM 14B

EAST SIDE UNION HIGH SCHOOL DISTRICT

Payroll Department Operational Efficiency And Comparative Staffing Review

March, 2016

EAST SIDE UNION HIGH SCHOOL DISTRICT
Payroll Department Operational Efficiency and Comparative Staffing Review
March, 2016

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EAST SIDE UNION HIGH SCHOOL DISTRICT

Payroll Department Operational Efficiency and Comparative Staffing Review
March, 2016

EXECUTIVE SUMMARY

The East Side Union High School District (District) contracted with Nigro & Nigro, PC (N&N) to conduct an organizational efficiency and comparative staffing review of the Payroll and Human Resources departments. The objective of the review is to assess the existing organizational structures and the functions within each department, as well as between the two departments. The review is designed to address the effectiveness and efficiency of the existing structure, as well as the adequacy of Payroll and Human Resources staffing levels in support of the educational program. The genesis of this project was to look at staffing levels and efficiencies in light of the expenditure reductions that have been, and continue to be, needed to balance the budget.

N&N conducted onsite interviews with administrators and support staff in order to evaluate the effectiveness of the existing organizational structure and its impact on the current operations and services of the District. N&N also reviewed documents provided by the District and conducted a staffing survey among a comparative group of districts of comparable funding level and size across the state. The data supports N&N's analysis of the District's current and future staffing needs.

The comparative analysis, which includes a review of full-time equivalents (FTEs) by department, is integrated in our review and analysis of the organizational culture and structure of the District in this report. The comparative staffing tables have been included for reference in the Appendix.

The major findings of this report include the following:

1. Some restructuring of both payroll and human resources departments would benefit both departments.

2. Better communication between both departments is needed to improved efficiency and reduce errors and redundancies.

3. Certain processes should be automated in order to improve efficiency and reduce errors.

Objective

The District contracted with N&N to conduct an organizational efficiency and comparative staffing review of the Payroll and Human Resources departments. The objective of the review was to assess the existing organizational structures and the functions within each department as well as between departments. The review is designed to address the effectiveness and efficiency of the existing structure, as well as the adequacy of Payroll and Human Resources staffing levels in support of the educational program. Upon completion of this review and evaluation, we offer findings and recommendations, where appropriate, for organizational changes to improve communication and operational efficiencies that we believe will ensure the District is positioned for continued success.

Our findings are intended to provide a basis for management decisions and actions. Our goal is to provide a current evaluation of the Payroll and Human Resources department organizational structure and functions and to provide recommendations for improving effectiveness and efficiency of operations in support of the instructional program.

EXECUTIVE SUMMARY (continued)

Scope
The organizational efficiency and comparative staffing review of the Payroll and Human Resources departments includes the following considerations:

- An organizational review of the District Payroll and Human Resources departments and recommendations for staffing improvements or reductions
- An evaluation of the current workflow and distribution of functions in the Payroll Department and recommendations for improved efficiency
- A review of internal controls, operational processes and procedures of the Payroll Department and recommendations for improved efficiency
- An evaluation of the workflow between the Payroll and Human Resources departments and recommendations for improved efficiency
- A validation of errors, including a sampling of payroll data for each pay group (certificated, classified, and management)
- Benchmark staffing analysis with five similar size districts to determine appropriate staffing levels

Methodology
As part of the research, N&N conducted onsite interviews with District Office administrators and support staff to discuss job responsibilities, staff workload, use of technology, channels of communication, division of responsibilities, and the perceived effectiveness and efficiency of the current organizational structure.

N&N also reviewed documents provided by the District including:

- Organizational charts for all District Office functions
- Employee rosters and position control documents
- Job descriptions
- Samples of work products and forms used

EXECUTIVE SUMMARY (continued)

Methodology (continued)
In addition, five school districts were surveyed for comparative staffing data. The comparative group was selected based upon funding level and district size similar to that of the District, as identified in Table 1:

Figure 1: Comparative District ADA	
District	Average Daily Attendance
Hesperia Unified School District	20,554
Colton Joint Unified School District	22,107
East Side Union High School District	***22,479***
Torrance Unified School District	23,148
Tustin Unified School District	23,279
Chaffey Joint Union High School District	23,335

Source: 2014-15 Audit Report

The comparative review required detailed district office staffing data from the districts selected for comparison. We believe that the responding districts provided a good sampling for a fair and accurate comparative analysis of current staffing levels of the District.

The comparative group analysis, which includes a review of FTEs by department, is incorporated into our review and analysis of each department included in this report. The comparative tables are included for reference in the Appendix.

Employees Interviewed
The following is a list of District employees that were interviewed as part of our analysis:

- Chris Funk, *District Superintendent*
- Marcus Battle, *Associate Superintendent for Business Services*
- Cari Vaeth, *Associate Superintendent for Human Resources*
- Kelly Kwong, *Senior Manager of Internal Controls*
- Vida Branner, *Director, Compensation, Benefits & Workers' Compensation*
- Marisol Esparza, *Accounting Manager*
- Luz Duroyan, *Senior Payroll Specialist*
- Marissa Juarez, *Benefits Coordinator*

EXECUTIVE SUMMARY (continued)

Employees Interviewed (continued)

- Deborah Sanchez, *Personnel Technician II*
- Roseann Gaska, *Personnel Technician II*

Interviews were conducted in person at the District Office over the period of March 8-10, 2016, with the exception of Marisol Esparza, who was interviewed via telephone on March 14, 2016.

DEPARTMENT STAFFING AND STRUCTURE

Payroll Department

Objectives
Internal controls over payroll should be established that meet the following objectives:

- All payroll transactions are preapproved.
- All valid payroll transactions are included in the accounting records in the proper period.
- All valid transactions are accurate, consistent with the originating transaction data, and information is recorded in a timely manner.
- All recorded payroll transactions fairly represent the economic events that actually occurred, are lawful in nature, and have been executed in accordance with management's general authorization.
- Access to payroll records are controlled and properly restricted to authorized personnel.
- Duties are assigned to individuals in a manner that ensures that no one individual can control both the recording function and the procedures relative to processing a transaction.

Current Staffing
The payroll department is headed by a Director of Compensation, Benefits & Workers' Compensation, who reports directly to the Associate Superintendent for Business Services. In addition, there is a department secretary, a benefits coordinator, and three senior payroll specialists.

DEPARTMENT STAFFING AND STRUCTURE (continued)

Payroll Department (continued)

Current Staffing (continued)

Figure 2: Payroll Department Staffing	
Title	FTE
Director, Compensation, Benefits & Workers' Compensation	1.0
Secretary	1.0
Benefits Coordinator	1.0
Senior Payroll Specialist	3.0
TOTAL	**6.0**

Human Resources Department

Objectives
The Human Resources department should be adequately structured and staffed to support the educational agency in all of its needs with regard to the management of personnel. This includes:

- A comprehensive classification and pay system
- Clear policies and procedures for the recruitment, selection, and evaluation of employees to ensure competency, accountability, and productivity
- A system of providing ongoing training to enhance employee and supervisor development and to ensure appropriate implementation of policies and procedures
- Standardized policies and practices for compliance with federal and state regulations and local collective bargaining agreements
- A structure and format for collective bargaining that values relationships with collective bargaining units while ensuring preservation of educational agency management rights and financial stability
- Communication systems, employee recognition programs, quality of life programs, and other activities to enhance employee relations, productivity, and wellness

DEPARTMENT STAFFING AND STRUCTURE (continued)

Human Resources Department (continued)

Current Staffing
The human resources department is headed by The Associate Superintendent, who reports directly to the Superintendent. In addition, there is a classified personnel manager, a department secretary, an administrative secretary, and six human resources technicians.

Figure 2: Human Resources Department Staffing

Title	FTE
Associate Superintendent	1.0
Manager, Classified Personnel	1.0
Department Secretary	1.0
Administrative Assistant	1.0
Personnel Technician	6.0
TOTAL	**10.0**

Observations
East Side Union High School District's payroll is processed independently from the Santa Clara County Office of Education (county office) using the Quintessential School Systems (QSS) financial accounting software. The payroll system is integrated with the human resources and financial modules, including position control. All employee data including pay rates are entered into the system by the District's human resources and payroll staff.

The payroll department experienced a series of major changes during the recent California recession when the payroll department took on additional responsibilities, including benefits and workers' compensation. Also, at the beginning of the 2015-16, one of the payroll specialists was newly hired, and another one was on a medical leave. Consequently, payroll was being processed by the director and one experienced specialist, with only one other inexperienced specialist. This resulted in a higher number than usual of payroll errors and increased resolution time.

Furthermore, having the payroll department handle workers' compensation and benefits puts additional strain on the department staff. In the comparative district analysis, those functions are typically functions of a separate risk management department or personnel department.

Each of the three senior payroll specialists are trained on all payroll functions, so that their duties are split among the alphabet rather than by function. This method of assigning duties was implemented recently, but provides for the most effective operation of payroll. Likewise, human resources technicians are all trained on the various functions, but split duties by school site/location. This current system seems to be working well.

DEPARTMENT STAFFING AND STRUCTURE (continued)

Observations (continued)

The human resources department has suffered from staffing cuts over the past several years. According the comparative district analysis, the staffing in the human resources department is lower than other school districts of comparable size. This has caused a relative level of inexperience among the technicians in the department.

Finally, based on interviews of staff from both departments, it is apparent that there is a general lack of communication between the payroll department staff and the human resources staff, causing frustration on both sides. This can be resolved with defined procedures and timelines for processing information between Human Resources and Payroll, and with additional training and opportunities for communication among all involved parties. For example, it would benefit the District for the Associate Superintendent of Human Resources and the Director of Compensation to attend any training provided by the county office so they can better understand the functions of the QSS financial accounting software and to attend county office payroll and human resources meetings together or share with each other information from those meetings so they have an opportunity to network with other districts in the county and share knowledge between the two departments.

Better communication between the Human Resources and Payroll departments could also be fostered by regular weekly or monthly meetings that include the Director of Finance, Associate Superintendent of Human Resources and the Director of Compensation. Meeting agenda items should include defining new processes and procedures, developing timelines, and discussing current issues. The Director of Finance needs to act as the liaison between the Human Resources and Payroll departments.

Organizational Structure

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

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

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

DEPARTMENT STAFFING AND STRUCTURE (continued)

Organizational Structure (continued)

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

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

Authority in a public school district originates with the elected governing board, which hires a superintendent to oversee the district. Through the superintendent, authority and responsibility are delegated to the district's administration and staff. The superintendent may make decisions about district operations within the parameters of law and board policy and is to provide leadership in developing the organizational structure.

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

Recommendations

1. Develop written procedures that outline the work flow and establish necessary internal timelines between the Human Resources and Payroll departments.

2. Consider restructuring the business office, so that the Director of Compensation position is changed to either a payroll manager or supervisor. Having a payroll manager focusing on payroll should help to reduce errors and increase efficiencies in the payroll function.

3. Consider moving the functions of benefits and workers' compensation to a separate risk management department or to the human resources department to provide for increased efficiencies and better alignment of services.

4. Consider increasing staffing in the human resources department to be more in line with other school districts of comparable size.

DEPARTMENT STAFFING AND STRUCTURE (continued)

Recommendations (continued)

5. Ensure that the Director of Compensation and/or Associate Superintendent of Human Resources attend county office payroll and human resources meetings and share the information they receive with each other.

6. Schedule and conduct regular meetings of the Director of Finance, Director of Compensation and/or Associate Superintendent of Human Resources.

7. Ensure that the Director of Finance acts as the liaison between the Human Resources and Payroll departments.

8. Review and update job descriptions to ensure that they are current, include the appropriate supervisor, include the date the job description was approved and/or revised by the governing board, and comply with the ADA.

9. Include the Senior Manager of Internal Controls in evaluating and monitoring the efficacy of the internal controls over both departments by performing periodic internal audits.

PAYROLL CYCLES AND DEADLINES

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

The District must adhere to deadlines for submitting payroll information. For each end-of-month payroll, the Human Resources Department is to submit all necessary Personnel Action Forms (PAFs) to payroll and enter required data in QSS by the 10th of the month. The payroll process begins with the senior payroll technicians entering all necessary changes to employee data in QSS. The director of compensation then reviews the preliminary payroll report, and reviews various exception reports for mismatched or incomplete data. The director then makes any needed corrections before the payroll is finalized and required reports are submitted to the IT department.

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

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

PAYROLL CYCLES AND DEADLINES (continued)

Recommendations

1. Assign the Human Resources and Payroll department staff to review payroll timelines and establish deadlines for submitting documents from sites and departments and Human Resources to the Payroll Department for each pay cycle. These deadlines should accommodate internal needs and meet the District's payroll deadlines.

2. Put the established payroll document submission deadlines in writing and provide them to all applicable site and department staff.

3. Work with the IT department to determine if the District may change its time card cutoff to an earlier date each month, such as the 20th or 25th, to allow sufficient time for review at the site or department level. If this change cannot be implemented, work with the IT department to determine if the supplemental payroll date can be changed to a later date each month, such as the 15th instead of the 10th.

4. Consider moving to an automated time card system to simplify the process. If the District continues to use manual time cards, consider redesigning them to clearly indicate the position and time worked in each position.

OPERATIONAL EFFICIENCY

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

The personnel action form (PAF) is completed by the personnel technician for all new hires and employee assignment changes. These forms require approval from the associate superintendents of human resources and business services. The personnel technician enters the employee's basic demographic data into QSS, including the Social Security number, name, address, and phone number. They also enter salary placement data into QSS, including step and column for certificated employees; range and step for classified employees; years of service credit; masters or doctorate verification; and position control number.

The director of compensation is responsible for auditing the system data entered by the personnel technicians, calculating and posting salary adjustments and time card data, and reconciling employee absences.

In interviews, payroll department staff indicated that the PAFs for new employees were often received in an untimely manner from the human resources department. Human resources department staff also indicated that the information required to be entered on the PAF was sometimes difficult to obtain and that they often had conflicting duties due to being short staffed. Automation of the personnel action forms through the current or a new financial and payroll system would simplify this process and reduce delays and errors.

OPERATIONAL EFFICIENCY (continued)

Substitute Placement and Employee Absence Tracking
There is a personnel technician who is responsible for hiring substitutes. The technician enters demographic data for all substitutes in QSS and information for substitute teachers in the substitute placement and absence management system. The District uses an automated substitute calling system that also allows substitutes to search for and accept jobs online. District teachers who require a substitute may use the system to choose one.
Staff indicated that not all teachers use system when they require a substitute; some call the substitute teacher directly. The system is also not used for classified staff positions that require substitutes, such as custodians and food service workers. Rather than use the system to electronically track all substitute time worked, a paper time card is kept in the site or department office and the substitute or office staff complete it each day. The time cards are to be submitted to the payroll department on the last business day of the month. Staff indicated that some site and department office staff compare the substitute teacher time cards with the information in the substitute system and others do not.

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

Terminations
Board Policy 4117.2/4217.2/4317.2, Resignation, indicates that an employee who desires to resign is to submit a letter indicating the date of his/her last work day, and authorizes the superintendent or their designee to accept an employee's written resignation.

The personnel technicians place all terminations on the personnel report for ratification by the governing board, and the payroll technicians enter the termination information into QSS.

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

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

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

OPERATIONAL EFFICIENCY (continued)

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

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

Staff indicated that some salary overpayments have occurred in the past, and the District's procedure for recovering salary overpayments requires the affected employee to meet with district office staff and mutually agree to a repayment plan. This repayment plan is a written document that outlines the amount and number of months the deduction will be subtracted from the employee's paycheck, and is signed by the employee. However, staff indicated that this procedure was not always followed in the past. In addition, one staff member indicated they thought the District may not be going back to collect amounts that were overpaid in the past. Depending on the circumstances, this may be considered a gift of public funds because allowing for an overpayment does not serve a public purpose.

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

Recommendations

1. Ensure that the director of compensation is responsible for auditing the employee data entered into QSS by the personnel technicians, calculating and posting salary adjustments and time card data, and reconciling employee absences.

2. Develop a standard orientation program for all new employees, and ensure that all new employees receive an orientation.

3. Consider posting new employee processing procedures and health and welfare benefit information on a staff portal of the District website.

4. Research the current substitute calling system to ensure the most current version is installed and that sites, departments and district office staff are aware of and trained in all its features.

OPERATIONAL EFFICIENCY (continued)

Recommendations (continued)

5. Provide district-wide substitute system training to all current employees, to new hires during orientation, and throughout the year as needed; and include the training materials on a staff portal of the District website.

6. Consider using the substitute system to track all employee absences and substitute time worked.

7. Consider working with the IT department to determine if a process can be developed to download information from the substitute system to QSS so that substitute time cards can be eliminated and payment information can be generated electronically, and so leave forms can be eliminated and absences tracked and recorded electronically.

8. Develop and distribute written procedures regarding the positions for which substitutes are to be obtained.

9. Consider developing a standard resignation/retirement form and requiring employees to complete it at the time of separation.

10. Ensure that the personnel technicians enter all employee separation information in QSS and provide the Payroll Department with a completed personnel action form to calculate the final paycheck.

11. Ensure that the payroll technician contacts the applicable school site or department to verify that all leave, overtime and compensatory time information has been submitted before calculating the final paycheck.

12. In consultation with legal counsel, develop and implement written procedures for the consistent handling of salary overpayments, including a collections process should such action be necessary.

13. Consider developing an absence request form that can be filled out electronically and placing it on a staff portal of the District website so that it can be completed and emailed to the supervisor and district office.

14. Conduct meetings with the human resources and payroll staff when bargaining unit agreements are negotiated that affect payroll processes and procedures.

15. Provide annual training to office managers, principals and department managers regarding payroll and human resources processes and procedures.

16. Post on a staff portal on the District website the most common payroll and human resources forms and information for employees to easily access; all forms should be posted in a format that can be filled out electronically.

INTERNAL CONTROLS

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

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

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

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

A system of internal controls consists of policies and procedures designed to provide the governing board and management with reasonable assurance that the organization achieves its objectives and goals. Hard controls include segregation of duties, management review and approval, and reconciliations. Soft controls include management tone, performance evaluations, training programs, and maintaining established policies, procedures and standards of conduct. The District in general has incorporated most of these elements in its payroll processes.

INTERNAL CONTROLS (continued)

Separation of Duties

Proper separation of duties is a key factor in creating strong internal controls. The director of compensation is responsible for processing, balancing, auditing, signing and submitting the payroll to the IT department at the end of each payroll cycle. The District's payroll checks are processed by the IT department and are then sent to the director of finance to be signed. The payroll department segregates the paychecks and direct deposit slips by location and sends the paychecks to the school site office managers so that employees may pick them up. Checks not picked up by employees on payday are held at the school site for an unspecified period of time then mailed out.

The District's system has one internal control weakness because it allows the school site to maintain access of paychecks that are not picked up. A preprinted list that includes each site or department employee name and a corresponding signature and date line should be sent to the sites and departments with the paychecks. This document should be returned by sites and departments to the district office with any remaining paychecks. This will help improve internal controls by allowing staff to quickly ensure that the proper checks are sent to each site and department and that those not signed for are returned to the district office for mailing.

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

Observations

We randomly selected a sample of 60 employees (30 certificated, 30 classified) to include employees with overtime, hourly, stipends, and extra duty. For the sampled employees, we selected payroll transactions from the months of September 2015 and January 2016 and tested for the following internal controls:

- Traced pay rate or amount to proper authorization (provided by payroll department for current year), and applicable salary schedule
- Recalculated gross pay, and traced hours to timesheets, if applicable
- Determined gross pay is correct, and is properly distributed as to account: fund, object and function
- Traced earned and taken vacation and sick leave to leave records, if applicable
- Determined if overtime was approved in accordance with district policy, if applicable
- Examined personnel file for PAF, board approval, personnel requisition, or other evidence to indicate that employee was properly hired

Our procedures identified no exceptions to the controls tested. We did note, however, that current pay rate information was not maintained in the employees' personnel files.

Appendix

APPENDIX

Comparative District Data - Payroll Department

	Payroll Department					
	Chaffey Joint Union High	**Colton Joint Unified**	**Hesperia Unified**	**Torrance Unified**	**Tustin Unified**	**East Side Union High**
Administrator		Payroll Supervisor (1.0) FTE		Manager - Employee Compensation (1.0) FTE	Payroll Manager (1.0) FTE	Director, Compensation, Benefits & Workers' Compensation (1.0) FTE
Clerical	Clerical Assistant (0.5) FTE					Secretary (1.0) FTE
Staff				Position Control Coordinator (1.0) FTE		Benefits Coordinator (1.0) FTE
	Payroll Technician (3.0) FTE	Accounting Technicians (4.0) FTE	Payroll Specialist (6.0) FTE	Fiscal Services Specialist (3.0) FTE	Payroll Clerk (3.5) FTE	Senior Payroll Specialist (3.0) FTE
Total FTE	**3.5**	**5.0**	**6.0**	**5.0**	**4.5**	**6.0**

APPENDIX (continued)

Comparative District Data - Human Resources Department

	Human Resources Department					
	Chaffey Joint Union High	Colton Joint Unified	Hesperia Unified	Torrance Unified	Tustin Unified	East Side Union High
Administrators	Deputy Superintendent (1.0) FTE	Assistant Superintendent (1.0) FTE	Assistant Superintendent (1.0) FTE	Senior Director - Certificated (1.0) FTE	Chief Personnel Officer (1.0) FTE	Associate Superintendent (1.0) FTE
	Director (1.0) FTE	Director (1.0) FTE	Director (1.0) FTE	Director, Personnel Commission (1.0) FTE*	Director (1.0) FTE	Manager, Classified Peronnel (1.0) FTE
	Benefits Manager (1.0) FTE		Assistant Director (1.0) FTE		Human Resources Manager (1.0) FTE	
Clerical	Administrative Assistant (2.0) FTE	Administrative Assistant (2.0) FTE	Executive Secretary (2.0) FTE	Administrative Assistant (1.0) FTE	Office Assistant (2.0) FTE	Administrative Secretary (1.0) FTE
		Human Resources Assistant (2.0) FTE	Department Program Secretary (1.0) FTE	Human Resources Assistant (0.5) FTE	Secretary (1.0) FTE	Department Secretary (1.0) FTE
			Senior Clerk Typist (1.0) FTE	Staff Assistant (0.9) FTE		
Staff	Technicians (6.0) FTE	Coordinators (2.0) FTE - Certificated (1.0) FTE - Classified	Personnel Specialist (2.0) FTE	Human Resources Specialist (4.0) FTE	Personnel Specialist (3.0) FTE	Technicians (6.0) FTE
	Personnel Clerks (3.0) FTE	Technicians (6.0) FTE	Substitute System Specialist (2.0) FTE	Human Resources Technician (1.0) FTE		
			Credential Analyst (1.0) FTE	Credential Specialist (1.0) FTE	Credential Analyst Specialist (2.0) FTE	
				Personnel Analyst (2.0) FTE*		
				Personnel Commission Specialist (1.0) FTE*		
Total FTE	**14.0**	**15.0**	**12.0**	**13.4**	**11.0**	**10.0**

* - Part of the Personnel Commission of a "merit system" district.

APPENDIX (continued)

Comparative District Data - Benefits

	Benefits handling					
Reports To:	**Chaffey Joint Union High**	**Colton Joint Unified**	**Hesperia Unified**	**Torrance Unified**	**Tustin Unified**	**East Side Union High**
Director of Risk Management		Benefits Technician (1.0) FTE	Assistant Director (1.0) FTE			
		Risk/Safety & Benefits Assistants (2.0) FTE	Benefits Specialist (1.0) FTE			
Deputy Superintendent, Administrative Services				Manager (1.0) FTE		
				Benefits Specialist (1.0) FTE		
				Benefits Technician (1.0) FTE		
Personnel	Benefits Director (1.0) FTE				Personnel Specialist (1.0) FTE	
	Personnel Technician (1.0) FTE				Computer Account Specialist (1.0) FTE	
Payroll						Benefits Coordinator (1.0) FTE
Total FTE	**2.0**	**3.0**	**2.0**	**3.0**	**2.0**	**1.0**