

2016-2017

Report to Board of Trustees and Administration

Audit Plan Code: 17-00.09

INVESTIGATION: CONCERN OF MISAPPROPRIATION OF PUBLIC FUNDS BY A SUBSTITUTE WAS VALIDATED

Weaknesses in the substitute verification process provided the opportunity for a substitute to be paid for jobs not worked.



EL PASO
INDEPENDENT
SCHOOL DISTRICT
Internal Audit Department



Contents

EXECUTIVE SUMMARY	1
Summary of Concern	1
Summary of Investigation Results	1
Management's Corrective Action Plan.....	1
Conclusion	2
INVESTIGATION REPORT	3
Concern	3
Background.....	3
Objective and Scope.....	3
Methodology	4
Due Professional Care.....	4
VALIDITY OF CONCERN, FINDINGS, AND RECOMMENDATIONS.....	4
Finding	4
Ancillary Findings.....	7
OBSERVATION	10
EXHIBIT A – CRITERIA	11

ABBREVIATIONS LIST

CAP	Corrective Action Plan
HR	Human Resources
IA	Internal Audit
TEAMS	Total Education Administrative Management Solution
SVM	Substitute Verification Module
TS	Technology Services

Executive Summary

We have completed the Concern of Misappropriation of Public Funds by a Substitute Investigation for the period of July 1, 2016 to October 22, 2016. The Executive Summary provides, on a summarized basis, the findings discussed throughout the body of the Investigation Report that follows. The Investigation Report includes background information and detailed findings (including ancillary), observation, recommendations, and management's corrective action plan.

Summary of Concern

Human Resources (HR) contacted Internal Audit to request assistance in determining whether a substitute was inappropriately paid for substitute jobs accepted but not worked (i.e., "no show").

Summary of Investigation Results

Concern was validated based on the finding below:

Finding:

The substitute in question misappropriated \$1,400 (gross amount) in public funds, including \$80 in federal funds. S/he accepted, but was a "no show" to 19 substitute jobs which were inappropriately verified by time keepers at 13 District campuses.

While conducting our investigation to validate the concern, we detected the following:

Ancillary findings:

1. There is a lack of segregation of duties in the substitute verification process. The campus time keepers have access to create, modify, delete, and approve substitute jobs.

Campus time keepers (hourly employees) are being allowed to verify substitute jobs without subsequent approval by the campus budget authority (principal). Payroll will process payment for these jobs as if they had been approved by a budget authority. As such, campus time keepers are acting in the capacity of budget authorities that generally is limited to principals/directors and above.

2. It appears a teacher who called in an absence (one of the 19 "no shows" in Finding mentioned above) on September 23, 2016, for a staff development/teacher prep day (no school for students), failed to click "No" on the "Substitute Required" field in the TEAMS employee absence module. As such, a substitute job was created, accepted by substitute in question, verified by the campus time keeper, and paid \$80 for that day.
3. On October 5, 2016, **a replacement** substitute covered one of the 19 "no show" jobs for the substitute in question, and received no payment (\$40). Instead, the substitute in question was inappropriately paid for this job.

Observation:

Currently, substitute teachers are not required to sign/acknowledge the District's Employee Handbook like at-will non-contract employees.

Management's Corrective Action Plan

A corrective action plan (CAP) was provided outlining the activities to be implemented. The CAP appears to be sufficient to address the reportable conditions outlined in this



report. Internal Audit will monitor the implementation of the CAP and schedule follow-up review(s) of evidence to ensure CAP activities have occurred.

Conclusion

The concern brought forward by Human Resources (HR) regarding inappropriately paid substitute jobs that were accepted and not worked was validated based on evidence reviewed, and corroborated by statements provided by the substitute in question. Weaknesses in the internal controls in the substitute verification process provided the opportunity for the substitute in question to misappropriate \$1,400 (gross amount) during the period of July 1, 2016 through October 8, 2016.

Due to the high rate (i.e. 83%) of paid “no shows” noted during this investigation:

- It is likely the substitute in question was improperly paid for no shows in previous school year(s).
- It is possible similar scenarios are occurring with other substitutes.

Recommendations have been made in this report to strengthen substitute verification internal controls and reduce the risk of future occurrences.



Investigation Report

According to the Institute of Internal Auditors' professional standards and related practice guides, Internal Audit (IA) should maintain an active role that relates to both promoting and assessing ethics throughout the District. Internal Audit's responsibilities, outlined in Board Policy CFC (Exhibit), include investigating reported alleged occurrences of fraud, theft, waste, and the like, and recommending controls to prevent and/or detect such occurrences (for example, hotline reports). This project was approved by the Board of Trustees as part of the 2016-2017 Internal Audit Plan under the "Contingency" category.

Concern

Human Resources (HR) contacted Internal Audit to request assistance in determining whether a substitute was inappropriately paid for substitute jobs accepted but not worked.

Background

The District's TEAMS Substitute Assignment Management System (created by Prologic Technology Systems) is used to manage substitute jobs. A substitute is hired on an on-call basis. Substitutes may be called by the TEAMS calling system, weekdays from 5:00 a.m. to noon for same day assignments, and from 5:00 p.m. to 9:00 p.m. for future assignments.

The District has created the Substitute Handbook for teacher, nurse, librarian, administrator, clerk, paraprofessional, and campus patrol that provides detailed procedures and expectations for substitutes. According to the 2016-2017 Substitute Handbook, when a substitute arrives at the campus, they should proceed to the campus office and sign in on the substitute sign-in sheet. The same handbook also requires a substitute who has accepted an assignment, but is then unable to fulfill the assignment, (i) to inform the principal immediately and (ii) it must be cancelled in the TEAMS Substitute Module no later than 12 hours prior to the start time.

In addition, a TEAMS Substitute Verification Module (SVM) user guide outlines procedures for campus time keepers to process substitute jobs. Per the TEAMS SVM user guide, substitute verification records can be reviewed and verified daily by time keepers. In the verification process, the system allows time keepers to remove substitutes if they did not show up for the job and/or change if another substitute was used. After substitutes' jobs are verified/approved in TEAMS by the campus time keepers (hourly employees), they are ready to be processed for payment by Payroll. The current TEAMS SVM workflow does not require substitute jobs to be verified/approved by campus principals.

Objective and Scope

The objective of our investigation was to determine the validity of the concern brought forward by HR. The scope was limited to (i) jobs verified and paid for all days worked by the substitute in question from July 1, 2016 through October 8, 2016 and (ii) jobs verified and scheduled to be paid from October 9, 2016 through October 22, 2016.

Our investigations seek to obtain facts and evidence to help establish what happened, identify the responsible party, and provide recommendations where applicable.



Methodology

To achieve the objective of this investigation, we:

- Researched relevant state and local policies and procedures and guidance from professional organizations.
- Obtained electronic substitute verification records from Technology Services (TS) and vouched to manual campus substitute sign-in sheets and attendance rosters for jobs paid and scheduled to be paid.
- Contacted campus time keepers who verified substitute jobs for the substitute in question to obtain substitute sign-in sheets and attendance rosters.
- Met and discussed substitute concern with pertinent HR staff as well as TS staff on separate occasions.
- Interviewed the substitute in question.
- Calculated amounts where substitute in question was a “no show” and (i) was paid and (ii) scheduled to be paid.

Due Professional Care

The Institute of Internal Auditors Professional Standard 1220-Due Professional Care states internal auditors “must exercise *due professional care* by considering the:

- Extent of work needed to achieve the engagement’s objectives;
- Relative complexity, materiality, or significance of matters to which assurance procedures are applied;
- Adequacy and effectiveness of governance, risk management, and control procedures;
- Probability of significant errors, fraud, or noncompliance; and
- Cost of assurance in relation to potential benefits.”

“*Due professional care*” implies reasonable care and competence, not infallibility, or extraordinary performance. As such, due professional care requires the internal auditor to conduct examinations and verifications to a reasonable extent. Accordingly, internal auditors cannot give absolute assurance that noncompliance or irregularities do not exist.

Validity of Concern, Findings, and Recommendations

The concern was validated based on evidence reviewed and corroborating statements provided by the substitute in question. Refer to the finding below for further details.

Finding

Finding (#01)

Condition	<p>The substitute in question misappropriated \$1,400 (gross amount) in public funds, including \$80 in federal funds. S/he accepted, but was a “no show” to 19 substitute jobs which were inappropriately verified by time keepers at 13 District campuses.</p> <ol style="list-style-type: none">1. The substitute did not cancel or show up for 19 out of 23 (approximately 83%) substitute jobs s/he accepted from July 1, 2016 through October 8, 2016 at 13 District campuses.<ol style="list-style-type: none">a. Review of records for the 19 “no shows” noted his/her signature was not in the substitute sign-in sheet or student attendance rosters when applicable.
-----------	---



	<p>b. During the interview, s/he stated on more than one occasion, "I always sign in...." Furthermore, when asked, "So if you did not sign in it means you did not work?" S/he answered, "If I did not sign in, no".</p> <p>2. In addition, on November 4, 2016, we reviewed documentation for four substitute jobs that were scheduled to be paid for the substitute in question. We identified the substitute in question was a "no show" for three of the four jobs. We communicated these results to HR and as a result, Payroll stopped the payment for \$308 (gross amount) scheduled to be paid on November 15, 2016.</p> <p>3. Per follow up with Payroll, the substitute in question had not contacted them, via any means, at any time during this calendar year (January 1, 2016 to November 9, 2016) to inform them s/he was overpaid, or that s/he was paid for jobs s/he did not perform, or to try to pay back money to the District.</p>
Cause	<p>1. Weaknesses in the substitute verification process provided the substitute in question the opportunity to misappropriate \$1,400 (gross amount) of public funds.</p> <p>2. Time keepers at 13 campuses inappropriately verified and approved for payment 19 substitute jobs where s/he was a "no show" and his/her signature was not present in the substitute sign-in sheets. Our follow up noted all 13 time keepers had attended Substitute Management or Substitute & Payroll Accounts training between September 2015 and November 2016.</p> <p>3. The mitigating control in place to monitor cancellations is not being performed. In addition, the control in place to monitor substitute attendance only focuses on excessive cancellations and not on "no shows". The Substitute Handbook addresses disciplinary action for excessive cancellations, but not "no shows".</p>
Criteria	Exhibit A – Criteria 1- 4
Recommendations	<p>1. Human Resources should take disciplinary action against the substitute in question for violating Board Policies DH (Exhibit) Educator's code of ethics and CAA (Local) which prohibits financial improprieties by employees.</p> <p>2. The Deputy Superintendent of Administration and Academics, in consultation with the Deputy Superintendent of Finance and Operations, General Counsel, and Chief of Police Services, should determine whether charges should be filed against the substitute in question and seek restitution of the misappropriated public funds.</p> <p>3. The respective Area Superintendents, in consultation with HR, should determine the appropriate disciplinary action for the campus time keepers who inappropriately verified the jobs for the substitute in question.</p> <p>4. Human Resources should file a copy of this report, as well as results of management's decision for Recommendation #1 above, in the appropriate employee file as part of the employee's work history for the substitute in question.</p> <p>5. Due to the high rate (i.e. 83%) of verified and paid "no shows" noted during our investigation, we recommend HR analyze all verified jobs prior to the scope period for the substitute in question, consistent with the methodology used by Internal Audit in this investigation. Analysis results should be discussed with the appropriate District personnel to determine what follow-up is warranted.</p>



	<p>6. Human Resources, Payroll, and respective Area Superintendents should consult with TS and Prologic to determine if it is feasible to enhance the TEAMS substitute verification process by including substitute swipes; this would entail for substitutes to swipe in and for their swipe to tie in to the TEAMS substitute verification process. This process should reduce the risk of time keepers inappropriately verifying substitute jobs.</p> <p>a. At a high level, the enhancement should allow the substitute swipes to be tied in to the related substitute job number and job location.</p> <p>b. During the verification process, only the substitute jobs that had a swipe tied in to it would be available for verification.</p> <p>c. Substitute jobs with no swipes would appear dimmed out, unavailable for verification, and would require follow up by the campus time keeper.</p> <p>7. If Recommendation #6 above is not feasible, compensating/soft controls, such as a warning window prompt where time keepers would need to certify potential consequences for failing to verify substitutes attendance should be implemented.</p> <p>8. We recommend HR consult with TS to determine if it is feasible for TEAMS to prevent a substitute from accepting a substitute job after they have exceeded a preset number (determined by HR) of cancellations or no-shows.</p> <p>9. We recommend HR include disciplinary action verbiage in the Substitute Handbook for excessive “no shows”.</p> <p>10. We recommend HR periodically monitor substitute “no shows” and cancellations, report and take disciplinary action when excessive cases are detected.</p>
Management's Corrective Action Plan	<p><u>Activity 01:</u> “Take disciplinary action against the substitute in question. Employee will be terminated.”</p> <p><u>Person Responsible:</u> Director Area Personnel & Recruiting, Human Resources</p> <p><u>Activity Due Date:</u> 4/28/2017</p> <p><u>Activity 02:</u> “File charges against the substitute in question.”</p> <p><u>Person Responsible:</u> Chief of Police, Police Services</p> <p><u>Activity Due Date:</u> 7/31/2017</p> <p><u>Activity 03:</u> “Take disciplinary action against the campus time keepers.”</p> <p><u>Persons Responsible:</u> Area 1 Superintendent; Area 2 Superintendent; and Area 3 Superintendent</p> <p><u>Activity Due Date:</u> 4/28/2017</p> <p><u>Activity 04:</u> “File a copy of this report as well as disciplinary action in the employee investigation file of substitute in question.”</p>



	<p><u>Person Responsible:</u> Director Area Personnel & Recruiting, Human Resources</p> <p><u>Activity Due Date:</u> 4/28/2017</p> <p>Activity 05: "In collaboration with Internal Audit, analyze verified jobs of substitute in question prior to the scope period using methodology consistent with Internal Audit and identify follow up action."</p> <p><u>Person Responsible:</u> Director Area Personnel & Recruiting, Human Resources</p> <p><u>Activity Due Date:</u> 7/31/2017</p> <p>Activity 06: "Determine if it is feasible to enhance the TEAMS substitute verification process by including substitute swipes; connecting swipes to substitute jobs & location; time cards to be created only when substitute jobs have a swipe; substitute jobs without swipes would be unavailable for verification; substitute jobs without swipes to be easily identifiable such as different color or a separate field."</p> <p><u>Persons Responsible:</u> Payroll Manager, Financial Services; Executive Director, Financial Services; and Business Systems Manager, Technology Services</p> <p><u>Activity Due Date:</u> 4/28/2017- Prologic's response [to determine if enhancement is feasible]; implementation dates will be [determined] based on response from Prologic regarding enhancement.</p> <p>Activity 07: "Request that TEAMS prohibit substitutes from accepting a job after they have exceeded a preset amount of cancellations or "no shows"."</p> <p><u>Persons Responsible:</u> Director Area Personnel & Recruiting, Human Resources and Business Systems Manager, Technology Services</p> <p><u>Activity Due Date:</u> 4/28/2017</p> <p>Activity 08: "Include disciplinary action verbiage in the Substitute Handbook for "No Shows"."</p> <p><u>Person Responsible:</u> Director Area Personnel & Recruiting, Human Resources</p> <p><u>Activity Due Date:</u> 4/28/2017</p> <p>Activity 09: "Create a report to monitor excessive cancellations and "no shows". Monitoring will take place monthly by Substitute Services Coordinator. HR Directors will follow up with disciplinary action when applicable."</p> <p><u>Persons Responsible:</u> Business Systems Manager, Technology Services and Director Area Personnel & Recruiting, Human Resources</p> <p><u>Activity Due Date:</u> 4/28/2017</p>
--	--

Ancillary Findings

While conducting our investigation to validate the concern, we detected the ancillary findings that follow:



Ancillary Finding (#01)

Condition	<ol style="list-style-type: none">1. There is a lack of segregation of duties in the substitute verification process. The campus time keepers have access to create, modify, delete, and approve substitute jobs.2. Campus time keepers (hourly employees) are being allowed to verify substitute jobs without subsequent approval by the campus budget authority (principal). Payroll will process payment for these jobs as if they had been approved by a budget authority. As such, campus time keepers are acting in the capacity of budget authorities that generally is limited to principals/directors and above.
Criteria	Exhibit A – Criteria 6
Recommendation	Payroll and HR should ensure the verification for substitute jobs is consistent with the time card approval process (which includes budget authority) that segregates the verification and approval responsibilities.
Management's Corrective Action Plan	<p>Activity 10: "Substitute job verification and approval be consistent with time card process and segregate verification and approval process."</p> <p><u>Persons Responsible:</u> Payroll Manager, Financial Services; Executive Director, Financial Services; and Business Systems Manager, Technology Services</p> <p><u>Activity Due Date:</u> 4/28/2017- Prologic's response [to determine if enhancement is feasible]; implementation dates will be [determined] based on response from Prologic regarding enhancement.</p>

Ancillary Finding (#02)

Condition	It appears a teacher who called in an absence (one of the 19 "no shows" in Finding #01) on September 23, 2016, for a staff development/teacher prep day (no school for students), failed to click "No" on the "Substitute Required" field in the TEAMS employee absence module. As such, a substitute job was created, accepted by substitute in question, verified by the campus time keeper, and paid \$80 for that day.
Criteria	Exhibit A – Criteria 7
Recommendations	<ol style="list-style-type: none">1. An automated control should be implemented in the TEAMS employee absence module preventing teachers from requesting a substitute on staff development/teacher prep days when students are not present. Human Resources, Payroll and respective Area Superintendents should consult with TS to discuss the elements of the automated control as noted below. Such automated control would entail the calendar in the TEAMS employee absence module to mirror the approved District calendar. In addition, a business rule should be created within the TEAMS employee absence module where the "Substitute Required" field would be dimmed out on staff development/teacher prep days. This would reduce the risk of substitutes accepting a job, inappropriately being verified, and getting paid for development/teacher prep days.2. We recommend Payroll determine the impact of similar instances across the school District by running a report to identify instances where substitutes were paid on staff development/teacher prep days. Results should be discussed with the Deputy Superintendent of Administration and Academics and Deputy



	Superintendent of Finance and Operations to determine if follow-up is warranted.
Management's Corrective Action Plan	<p>Activity 11: "An automated control should be implemented in the TEAMS employee absence module preventing teachers from requesting a substitute on staff development/teacher prep days when students are not present."</p> <p><u>Persons Responsible:</u> Payroll Manager, Financial Services and Executive Director, Financial Services</p> <p><u>Activity Due Date:</u> 1/17/2017</p> <p>Activity 12: "Recommendation was to place an automated control in the employee absence TEAMS system to prohibit employees from requesting substitutes on staff development/teacher prep days when students are not present. Calendars are set up to not allow substitutes to be called on these days. However, it was determined that there are instances when substitutes are required; therefore, the ability to request one must remain as an option. A request was made to TIS that a pop up message be placed to warn employee that there are no students on this day and do they want to proceed with the request."</p> <p><u>Person Responsible:</u> Business Systems Manager, Technology Services</p> <p><u>Activity Due Date:</u> 4/28/2017- Prologic's response [to determine if enhancement is feasible]; implementation dates will be [determined] based on response from Prologic regarding enhancement.</p> <p>Activity 13: "Identify similar instances across the school district by running a report to identify instances where substitutes were paid on staff development/teacher prep days."</p> <p><u>Persons Responsible:</u> Payroll Manager, Financial Services; Executive Director, Financial Services; and Business Systems Manager, Technology Services</p> <p><u>Activity Due Date:</u> 4/28/2017</p>

Ancillary Finding (#03)

Condition	<p>On October 5, 2016, a replacement substitute covered one of the 19 "no show" jobs for the substitute in question, and received no payment (\$40). Instead, the substitute in question was inappropriately paid for this job.</p> <p>It appears the time keeper did not replace the substitute in question that was a "no show" in the TEAMS SVM with the substitute that actually worked. The current process in the TEAMS SVM allows time keepers to change the assigned substitute with a replacement substitute if they fail to show up.</p>
Criteria	Exhibit A – Criteria 5
Recommendation	1. Payroll should determine whether the replacement substitute has received payment for the day worked. If this has not occurred, payment should be processed promptly.



	2. We recommend Payroll determine, based on the analysis performed by HR as part of Recommendation #5 in Finding #01, whether other replacement substitutes need to be paid for jobs worked in lieu of the substitute in question.
Management's Corrective Action Plan	<p>Activity 14: "Payroll will determine if replacement substitute has received payment for the day worked on October 5, 2016."</p> <p><u>Persons Responsible:</u> Payroll Manager, Financial Services and Executive Director, Financial Services</p> <p><u>Activity Due Date:</u> 2/28/2017</p> <p>Activity 15: "Based on the analysis and identification from Human Resources for other replacement substitutes that may have not received payment in the past year, payroll department will research the list provided by Human Resources and research the pay history and process payment."</p> <p><u>Persons Responsible:</u> Director Area Personnel & Recruiting, Human Resources; Payroll Manager, Financial Services; and Executive Director, Financial Services</p> <p><u>Activity Due Date:</u> 7/31/2017</p>

Observation

Observations do not necessarily violate local, state, or federal guidelines, and as such, were not included/counted as findings in the findings/ancillary findings section of the report. However, we felt the items noted or observed documented in this section were worthy of informing you as the data owner/expert.

Observation (#01)

Observation	Currently, substitute teachers are not required to sign/acknowledge the District's Employee Handbook like at-will non-contract employees.
Recommendation	We strongly recommend all employee groups be required to sign/acknowledge the District's Employee Handbook upon employment and on a yearly basis. We believe this will hold all employees accountable and help promote the District's strategic priority to Lead with Character and Ethics and expectations of Honesty, Integrity, Ethical, Transparent, and Effective Leadership.
Management's Corrective Action Plan	<p>Activity 16: "Have substitute teachers sign/acknowledge the District's Employee Handbook as well as the Substitute Handbook upon employment and on a yearly basis."</p> <p><u>Persons Responsible:</u> Director Area Personnel & Recruiting, Human Resources and Business Systems Manager, Technology Services</p> <p><u>Activity Due Date:</u> 7/31/2017</p>



Exhibit A – Criteria

Criteria No.	Criteria Source	Criteria Details
1	The Substitute Assignment Management System - Substitute Handbook for Teacher /Nurse/Librarian/ Administrator and Clerk/Paraprofessional/ Campus Patrol	<p>Responsibilities, A. Job Cancellation “A substitute who has accepted an assignment, but is then unable to fulfill the assignment, must inform the Principal immediately and it must be cancelled no later than 12 hours prior to the start time.”</p> <p>Campus Procedures A. Campus arrival “1. Arrive on time. 2. The substitute should proceed to the campus office upon arrival at a campus. 3. Sign in on the substitute sign-in sheet.”</p>
2	Employee Handbook 2016-2017	<p>Recovery of Overpayments and Other Debts “Employee agrees to repay to the District any overpayment of compensation made to the Employee by District. Employee disclaims any right or entitlement to any payment of salary or other compensation over and above the amount actually earned by Employee, regardless of the mistake, negligence or fault (or lack thereof) of either or both parties. The District may deduct any overpayments to the Employee by District, occurring during the current school year or any prior school year, any other debt that Employee may owe the District, from Employee’s pay. District may also use any other legal means, including litigation, if necessary, to recover any amount overpaid to Employee, or otherwise owing by Employee to the District.”</p>
3	CAA (Local) Fiscal Management Goals and Objectives	<p>Fraud and Financial Impropriety “The District prohibits fraud and financial impropriety, as defined below, in the actions of its Board members, employees, vendors, contractors, consultants, volunteers, and others seeking or maintaining a business relationship with the District.”</p> <p>“Fraud and financial impropriety shall include but not be limited to: ...Misappropriation of funds, securities, supplies, or other District assets, including employee time.”</p>
4	DH (Exhibit) Employee Standards of Conduct	<p>Educator’s Code of Ethics Standard 1.2. “The educator shall not knowingly misappropriate, divert, or use monies, personnel, property, or equipment committed to his or her charge for personal gain or advantage.</p>
5	DEAB (LEGAL) Compensation Plan Wage and Hour Laws	<p>Fair Labor Standards Act “Unless an exemption applies, a district shall pay each of its employees not less than minimum wage for all hours worked. 29 U.S.C. 206(a)(1)”</p>
6	Administrators Resource Guide - Financial Services	<p>Authorization of Expenditures “The budget authority is responsible for the budget for his or her campus, department or operating unit.”</p> <p>“It is recommended that only principals or directors and above approve purchase orders, direct pay vouchers, warehouse requisitions, payroll authorizations, time sheets, time cards, campus checks, or any other expenditure of district funds.”</p>
7	TEAMS Time Card Approval User Guide	<p>Absence Requiring a Substitute “8. Click Substitute Required?, this option will default to Yes, if a substitute is not needed make sure to click on the No radio button.”</p>

