



Payroll Audit Report: Terrace Hills Middle School

ASSURANCE • INSIGHT • OBJECTIVITY

Audit Plan Code: 18-10.048

We identified several instances of missing documentation for the approval of overtime/compensatory time, employee leave, and after the fact approval for compensatory time.



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Abbreviations

CAP	Corrective Action Plan
FASRG	Financial Accountability System Resource Guide
TEA	Texas Education Agency
TEAMS	Total Education Administrative Management Solution

Definitions

Exempt	Employees who are exempt from the overtime pay requirements of the Fair Labor Standards Act (FLSA) on a salary basis.
Non-exempt	Employees may be compensated on an hourly basis or on a salary basis. Employees who are paid on an hourly basis shall be compensated for all hours worked. Employees who are paid on a salary basis are paid for up to and including a 40-hour workweek
Short of Schedule Plug	A weekly plug completes a full time, annualized hourly employee's schedule for the week (40 total hours) when they are missing up to one hour's time. When an hourly employee is missing more than one hour of time, a correction or absence is needed.



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Background

As stated in the Texas Education Agency's (TEA) Financial Accountability System Resource Guide (FASRG), "School districts are mandated to record payroll costs by campus level for educational personnel including professional and paraprofessional personnel where the cost is clearly attributable to a specific organization...A payroll system must be capable of adequate reporting for effective control and monitoring by management and of providing reports and records required by state and federal laws... Individual payroll records are necessary to provide both budgetary control and the reports required by various governmental agencies and internal management. Regardless of the forms used in payroll accounting, it is very important to correctly calculate gross pay, payroll deductions, and net pay prior to recording these amounts."

The time keeper is in charge of verifying time cards and reviewing approval forms for flex time, overtime/compensatory time, employee leave, and substitute sign-in sheets. At the campus level, the timekeeper duties are usually assigned to the secretary to the principal. The Principal is in charge of approving time cards and all forms reviewed by the time keeper.

Payroll Audits were approved by the Board of Trustees as part of the 2016-2017 and 2017-2018 Internal Audit Plans.

Objective and Scope

The objectives of the audit were as follows:

1. Determine whether employees were compensated in compliance with District guidelines.
2. Determine whether overtime and compensatory time were properly approved, accurate and in compliance with District guidelines.
3. Determine whether absences are supported by a written request/approval or other corresponding documentation and were taken in compliance with District guidelines.
4. Determine whether timecard verification was performed in compliance with District guidelines.
5. Determine whether substitute jobs paid with local and federal funds are supported by the corresponding documentation and in compliance with District guidelines.

The scope of the audit included payroll records for regular wages, overtime, compensatory time, flextime, employee leave, and substitutes from July 1, 2016 to December 31, 2016.



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Methodology

To achieve the audit objective, we:

- Researched relevant federal/state laws and regulations, Board policies, and Payroll's Department manual/guidelines.
- Used pre-audit self-assessment and internal control questionnaires to obtain an understanding of the campus payroll process and controls in place.
- Performed a risk assessment based on our understanding of the payroll process for campuses and controls in place.
- Obtained and analyzed payroll records to include: payroll rosters, time clock swipe in/out records, request and approval forms for flex schedules, overtime and compensatory time, absence records, unapproved time cards, and funding source and sign in sheets for substitutes for the scope period.
- Selected a representative sample based on our sampling procedures for each of the tests performed.

Inherent Limitations

Because of the inherent limitations in a system of internal controls, there is a risk that errors or irregularities occurred and were not detected. Due professional care requires the internal auditor to conduct examinations and verifications to a reasonable extent. Accordingly, an auditor is able to obtain reasonable, but not absolute, assurance that noncompliance or irregularities do not exist.

Corrective Action Plan

District management provided a Corrective Action Plan (CAP) outlining the activities to be implemented. The CAP appears to be sufficient to address the findings outlined in the report. Attached is the summary of results.








Summary of Results

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Findings and Observations by Section

Findings are inconsistencies, exceptions, or events where employees involved in the financial process departed from federal policies, state, or District guidelines, or procedures.

Observations do not violate federal, state or local, guidelines, and as such, are not included as findings in the Internal Audit Report. However, they are worthy of informing administration in order for them to make the determination as to whether they should be addressed.

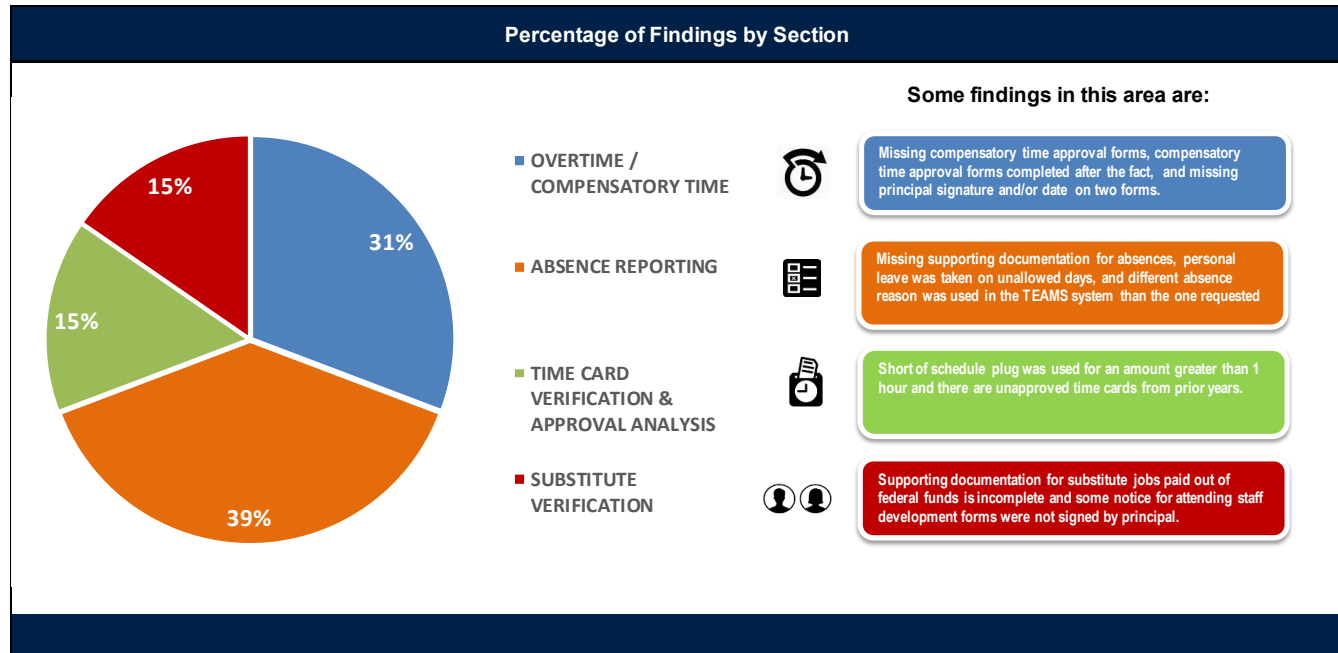
Sections Audited (Unless Otherwise Noted)		Audit Objectives by Section	No. of Findings	No. of Observations	
Hours Worked		Determine whether employees are being compensated in compliance with District guidelines.	0	0	
Overtime/ Compensatory Time		Determine whether overtime and compensatory time were properly approved, accurate and in compliance with District guidelines.	4	0	
Absence Reporting		Determine whether absences are supported by a written request/approval or other corresponding documentation and were taken in compliance with District guidelines.	5	2	
Time Card Verification & Approval Analysis		Determine whether timecard verification was performed in compliance with District guidelines.	2	0	
Substitute Verification		Determine whether substitute jobs paid with local and federal funds are supported by the corresponding documentation and in compliance with District guidelines.	2	0	
SECTIONS WITH FINDINGS		4 OUT OF 5	TOTAL FINDINGS IN THIS REPORT	13	2



Summary of Results

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Percentage of Findings by Section





Summary of Results

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Recommendations

Overtime/Compensatory Time

1

Hourly employees and their Supervisor must complete the Authorization to Work Overtime/Flex/Comp form prior to overtime/compensatory time being worked as outlined in the Financial Services Section of the Administrator's Reference Guide. Supervisors of nonexempt employees should monitor hours worked by employees to ensure unauthorized overtime or compensatory time does not occur. Approved overtime or compensatory time forms must be kept on file at the campus. This form serves to confirm prior written request and approval for overtime and compensatory time.

We recommend all campus employees be made aware of the Financial Services Section of the Administrators Reference Guide that states, "The new form [Authorization to Work Overtime/Flex/Comp], approved by Cabinet, must be completed by the employee and supervisor prior to overtime being worked... If an hourly employee fails to obtain approval from the supervisor, prior to the time worked, the supervisor is to document and write up the employee."

Absence Reporting

2

Approval for all discretionary leave must be documented (using the appropriate District form) and kept on file at the campus. This form serves to confirm prior written request and approval of leave as outlined in Board Policy DEC (Local).

3

According to Board Policy DEC (Regulation), upon the employee's final release from jury duty, he or she must provide to the principal and/or department head appropriate documentation certifying the time served. This documentation should be kept on file at the campus.

4

In order to preserve the continuity of the instructional program, campus administrators and/or staff should not take days off on unallowed days per District policy. If leave is requested on days unallowed per District policy, we recommend the approval form include a statement from the Principal confirming they have determined the absence will not impact on the continuity of the instructional program as outlined in Board Policy DEC (Local).



Summary of Results

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- 5 As part of their verification process, the campus time keepers should validate the absence reason entered in the TEAMS system matches the leave approved on either the Request for Personal Leave form or Request for Non Duty/ Vacation Hours form in order for an employee's approved leave to be reflected accurately.
- 6 We recommend supporting documentation be maintained for inservice type absences in addition to the Notice for Attending Staff Development form in order to aid employees better account for their daily attendance as outlined in Board Policy DK (Regulation). Supporting documentation such as a meeting agenda (which outlines the start/end time of the event) or a training brochure can help minimize the risk the inservice absence code is misused.

Time Card Verification & Approval Analysis

- 7 Campus administrators and/or time keepers should not use short of schedule plugs for more than hour. The purpose of the short of schedule plug is to complete a full time, annualized hourly employee's schedule for the week when they are missing up to one hour's time.
- 8 Campus administrators should work with the Payroll Department and/or Technology Services to clear unapproved time cards that do not pertain to the current payroll pay period. The effect of not verifying/approving time records is that balances for employee absences, overtime, and compensatory time may be understated/overstated in TEAMS. Untimely approval of time cards creates a risk that employees are not properly paid.

Substitute Verification

- 9 Supporting documentation for substitute jobs requiring federal funds should always be complete and kept on file. Pertinent information such as the principal's approval, purpose of the trip and authorized account numbers to be charged for the substitute job should be kept in order to demonstrate that the expenditure is allowable and supplemental to other federal and/or non-federal programs.
- 9 According to the Supplement, not Supplant Handbook (A Guide for Grants Administered by the Texas Education Agency), "The purpose of a supplement, not supplant provision is to help ensure that federal grants funds are expended to benefit the intended population defined in the authorizing stature, rather than being diverted to cover expenses that the LEA would have paid out of other funds in the event the federal funds were not available."



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