



**CSIS** California School Information Services

# Santa Barbara School Districts

## Payroll Management Review

March 31, 2011



**Joel D. Montero**  
Chief Executive Officer







## CSIS California School Information Services

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March 31, 2011

Brian Sarvis, Ed.D., Superintendent  
Santa Barbara School Districts  
720 Santa Barbara Street  
Santa Barbara, CA 93101

Dear Superintendent Sarvis:

In October 2010, the Santa Barbara School Districts and the Fiscal Crisis and Management Assistance Team (FCMAT) entered into an agreement for a payroll review. Specifically, the agreement stated that FCMAT would perform the following:

The FCMAT team will sample test data from the prior six months and include a review of earnings, extra earnings, deferred net pay (10 month employees) and benefits. Testing associated with this review will be based upon sample selection and will not include the testing of the complete payroll records. Sample testing and review results are intended to provide reasonable, but not absolute assurance as to the accuracy of timekeeping and payroll data. The objective of the report will be to provide findings regarding the efficiency and accuracy of the payroll department data and make recommendations for the following:

1. Provide reasonable assurance that payroll transactions are entered by properly authorized personnel and that the transactions are accurately summarized for salary and benefit compensation. The FCMAT team will obtain the data and information necessary to perform testing of various payroll records. This component will be to evaluate the effectiveness and efficiency of departmental payroll processing operations which include new hires, ghost employees, terminations, salary adjustments, overtime/comp time and leave time.
2. Provide reasonable assurance that access to the timekeeping and payroll operating system (CECC) is properly secured from unauthorized changes and that the proper internal control systems are in place for data transfers between the payroll and human resources department.
3. Evaluate the division of labor and segregation of duties between classified and management employees in the payroll department.
4. Review the payroll department work flow and staffing.

### FCMAT

Joel D. Montero, Chief Executive Officer

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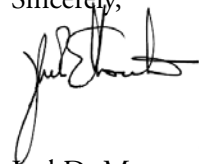
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5. Provide recommendations regarding the feasibility of implementing a supplemental payroll for substitutes and hourly employees.
6. Determine the feasibility of eliminating the certificated split payroll in December and January.
7. Review the records processing procedures and file management protocol.
8. Evaluate desk manuals and procedures for each departmental employee.
9. Review the integration and use of position control with the payroll and personnel departments.
10. Verify that the district is in compliance with the State Teachers' Retirement System of California (STRS) regarding employee/employer contributions and reporting.
11. Verify that the district is in compliance with the California Public Employees' Retirement System (CalPERS) regarding employee/employer payments and reporting.
12. Review the unemployment compensation process to ensure that the district is in compliance with the payment and reporting process for the California State Office of Unemployment Compensation.
13. Ensure that the federal and state withholding allowances claimed by district employees agreed with the withholding allowances entered in the payroll system as of 09/30/2010.
14. Review procedures related to deductions and payments to vendors, including but not limited to insurance carriers.

This final report contains the study team's findings and recommendations in the above areas of review. We appreciate the opportunity to serve the Santa Barbara School Districts, and extend our thanks to all the staff for their assistance during fieldwork.

Sincerely,



Joel D. Montero  
Chief Executive Officer

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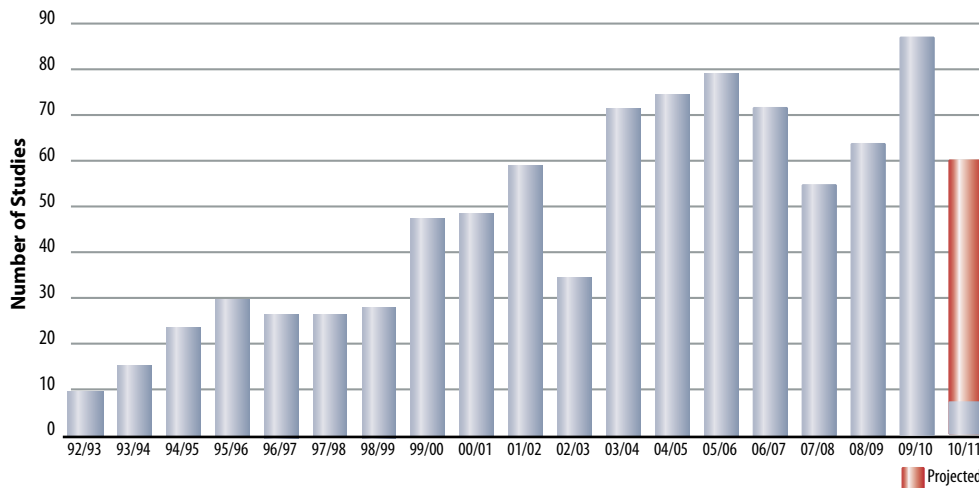
# About FCMAT

FCMAT’s primary mission is to assist California’s local K-14 educational agencies to identify, prevent, and resolve financial and data management challenges. FCMAT provides fiscal and data management assistance, professional development training, product development and other related school business and data services. FCMAT’s fiscal and management assistance services are used not just to help avert fiscal crisis, but to promote sound financial practices and efficient operations. FCMAT’s data management services are used to help local educational agencies (LEAs) meet state reporting responsibilities, improve data quality, and share information.

FCMAT may be requested to provide fiscal crisis or management assistance by a school district, charter school, community college, county office of education, the state Superintendent of Public Instruction, or the Legislature.

When a request or assignment is received, FCMAT assembles a study team that works closely with the local education agency to define the scope of work, conduct on-site fieldwork and provide a written report with findings and recommendations to help resolve issues, overcome challenges and plan for the future.

Study Agreements by Fiscal Year



FCMAT also develops and provides numerous publications, software tools, workshops and professional development opportunities to help local educational agencies operate more effectively and fulfill their fiscal oversight and data management responsibilities. The California School Information Services (CSIS) arm of FCMAT assists the California Department of Education with the implementation of the California Longitudinal Pupil Achievement Data System (CALPADS) and also maintains DataGate, the FCMAT/CSIS software LEAs use for CSIS services. FCMAT was created by Assembly Bill 1200 in 1992 to assist LEAs to meet and sustain their financial obligations. Assembly Bill 107 in 1997 charged FCMAT with responsibility for CSIS and its statewide data management work. Assembly Bill 1115 in 1999 codified CSIS’ mission.

AB 1200 is also a statewide plan for county office of education and school districts to work together locally to improve fiscal procedures and accountability standards. Assembly Bill 2756

(2004) provides specific responsibilities to FCMAT with regard to districts that have received emergency state loans.

In January 2006, SB 430 (charter schools) and AB 1366 (community colleges) became law and expanded FCMAT's services to those types of LEAs.

Since 1992, FCMAT has been engaged to perform nearly 850 reviews for LEAs, including school districts, county offices of education, charter schools and community colleges. The Kern County Superintendent of Schools is the administrative agent for FCMAT. The team is led by Joel D. Montero, Chief Executive Officer, with funding derived through appropriations in the state budget and a modest fee schedule for charges to requesting agencies.



# Introduction

## Background

Located in Santa Barbara County, the Santa Barbara Elementary and Santa Barbara Secondary School Districts are one of six common administration districts in California. The districts are governed by a single board consisting of five elected members and serve approximately 15,600 students in kindergarten through twelfth grade.

Education Code Section 42650 allows a school district to apply to the county superintendent of schools and county auditor for fiscally accountable status and authorization to issue its own payroll and/or vendor warrants. For fiscally accountable districts, county offices are not responsible for providing reports, statements, or other data relating to the designated expense payments. The county superintendent or county auditor may revoke a district's fiscally accountable status at any time if they determine the financial management or accounting controls of a district are not adequate. Education Code Section 42652 also allows the county superintendent to revoke or suspend a district's fiscally accountable status if a district has a qualified or negative budget certification as defined in Section 42131. In addition, Education Code Section 1241.5 provides for the county superintendent to audit a district's financial transactions at any time during the fiscal year, report the findings to the governing board within 45 days of completing the audit, and to revoke a district's fiscally accountable status if they determine financial management and accounting controls are not adequate.

The Santa Barbara School Districts are fiscally accountable and thereby operate many of the daily financial functions, including the preparation of payroll and vendor warrants, independently from the county office of education.

In October 2010, the Fiscal Crisis and Management Assistance Team (FCMAT) entered into an agreement with the district for management assistance. The study agreement specifies the scope and objectives of FCMAT's work as follows:

The primary focus of this review is to provide the payroll department with reasonable assurance based on the testing performed that adequate management controls are in place. Management controls include the processes for planning, organizing, directing, and controlling program operations, including systems for measuring, reporting, and monitoring performance. The payroll process is generally a high risk audit area in which potential fraud issues such as fictitious employees or unauthorized misappropriation of assets may be detected. Specific audit objectives will include evaluating the policies, procedures, and internal controls related to the payroll department.

The FCMAT team will sample test data from the prior six months and include a review of earnings, extra earnings, deferred net pay (10 month employees) and benefits. Testing associated with this review will be based upon sample selection and will not include the testing of the complete payroll records. Sample testing and review results are intended to provide reasonable, but not absolute assurance as to the accuracy of timekeeping and payroll data. The objective of the report will be to provide findings regarding the efficiency and accuracy of the payroll department data and make recommendations for the following:

1. Provide reasonable assurance that payroll transactions are entered by properly authorized personnel and that the transactions are accurately summarized for salary and benefit compensation. The FCMAT team will obtain the data and information necessary to perform testing of various payroll records. This component will be to evaluate the effectiveness and efficiency of departmental payroll processing operations which include new hires, ghost employees, terminations, salary adjustments, overtime/comp time and leave time.
2. Provide reasonable assurance that access to the timekeeping and payroll operating system (CECC) is properly secured from unauthorized changes and that the proper internal control systems are in place for data transfers between the payroll and human resources department.
3. Evaluate the division of labor and segregation of duties between classified and management employees in the payroll department.
4. Review the payroll department work flow and staffing.
5. Provide recommendations regarding the feasibility of implementing a supplemental payroll for substitutes and hourly employees.
6. Determine the feasibility of eliminating the certificated split payroll in December and January.
7. Review the records processing procedures and file management protocol.
8. Evaluate desk manuals and procedures for each departmental employee.
9. Review the integration and use of position control with the payroll and personnel departments.
10. Verify that the district is in compliance with the State Teachers' Retirement System of California (STRS) regarding employee/employer contributions and reporting.
11. Verify that the district is in compliance with the California Public Employees' Retirement System (CalPERS) regarding employee/employer payments and reporting.
12. Review the unemployment compensation process to ensure that the district is in compliance with the payment and reporting process for the California State Office of Unemployment Compensation.
13. Ensure that the federal and state withholding allowances claimed by district employees agreed with the withholding allowances entered in the payroll system as of 09/30/2010.
14. Review procedures related to deductions and payments to vendors, including but not limited to insurance carriers.

## Study Guidelines

FCMAT visited the district on November 29 and 30, 2010 to conduct interviews, collect data and review documents. This report is the result of those activities and is divided into the following sections:

- Executive Summary
- Department Staffing and Structure
- Processes, Procedures and Compliance
- Appendices

## Study Team

The study team was composed of the following members:

Diane Branham

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Bakersfield, California

Lynn Kamph

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\*As a member of this study team, this consultant was not representing her employer but was working solely as an independent contractor for FCMAT.



# Executive Summary

The district's payroll department is comprised of six employees, including a payroll coordinator, four payroll technicians, and one part-time senior office assistant. The department is managed by the payroll coordinator, who reported directly to the deputy superintendent of business until January 3, 2011, when the coordinator was assigned to report to the director of fiscal services. In 2008 the payroll department was reorganized and staffing was increased from two to four payroll technicians, and in 2010 a part-time senior office assistant was added. However, the work flow, the integrity of the payroll data and reporting, meeting of payroll deadlines, and communication with other departments and employees has been lacking.

A school district's organizational structure should establish the framework for leadership and the delegation of specific duties and responsibilities. Management positions are typically responsible for supervising employees and overseeing departmental work. They must ensure that staff members understand all district policies and procedures and perform their duties timely and accurately. The Santa Barbara School Districts' payroll coordinator position is responsible for many non-management tasks, including making adjustments to the payroll system for employee deductions, preparing and transmitting payroll and benefits to the appropriate banking systems, and processing employee insurance deductions. Routine payroll tasks should be reassigned to the payroll technicians and senior office assistant.

To meet monthly payroll and retirement reporting deadlines, ensure sufficient cross-training, and provide for proper internal controls the district should consider reassigning and reorganizing some of the payroll duties, including reclassifying one payroll technician position to a retirement specialist position. The district should ensure that training has been provided to the payroll department staff members for all their assigned areas of responsibility and that clear direction and necessary oversight is provided by management.

The staffing survey included in this report indicates that the number of payroll staff members in the Santa Barbara School Districts is greater than the five comparison districts. In addition, the payroll technicians in all of the comparison districts are responsible for processing payroll deductions. However, because Santa Barbara is a fiscally accountable, common administration with financial oversight of two school districts, more staff is needed to complete functions that are oftentimes performed at the county office level and to reconcile payroll accounts for employees that are split between the two districts. The district should assign each payroll department staff member to complete a one-month time management analysis to help determine if the payroll department is staffed properly.

Internal controls are the foundation of sound financial management and help protect the district from material weaknesses, serious errors and fraud. To help provide for proper internal controls, the district should: assign the task of processing payroll deductions to the payroll technicians; assign the task of processing wage garnishments to at least two of the payroll technicians; assign the task of reconciling the garnishment check list with the checks to a payroll employee not involved in processing the garnishments; assign each payroll department staff member to complete step-by-step procedures for each of their job duties and include these procedures in a desk manual; ensure that all payroll technicians do not take accrued leave at the same time; and ensure that no employee has change access to all of the human resources and payroll system screens needed to add and pay an individual.

Although the district has hiring procedures in place, they are not consistently followed by site administrators and department managers. New employees are sometimes hired without the

knowledge of the human resources and payroll departments. Therefore, the payroll department is not aware of the new employee until a time sheet is submitted or the employee notifies payroll that they did not receive a paycheck. This creates processing delays or nonpayment if earnings are submitted for an employee that is not in the payroll system. Significant liability may also be incurred by the district if proper hiring practices are not followed. The district should establish an annual mandatory workshop for school site and department personnel that includes applicable human resources, fiscal services and payroll processes, procedures, and timelines and hold administrators and managers accountable for following them.

Testing of a random sampling of the district's payroll records revealed inconsistencies in the use of earning codes and employees that were not included in the position control file. The district should ensure that all contracted employees have a valid, board-approved position that is included in the position control system. The district should develop and implement a master list of earnings codes to provide consistency and accuracy in their use and consider bringing in an outside expert to provide training and guidance in the use of the proper earnings codes.

Interviews indicated differences in how the human resources and payroll departments calculate vacation accruals for classified employees. Interviews further indicated that discrepancies had been found in the processing of sick leave and vacation accruals for some certificated and/or management employees. The district should determine the correct interpretation of the CSEA collective bargaining agreement regarding vacation accruals and ensure that the human resources and payroll departments apply the interpretation consistently. The district should also meet with CSEA and renegotiate the settlement agreement regarding overpayments to classified employees who overuse their leave time.

All original payroll documents should be submitted to the payroll department and used to process payroll. In addition, the records retention period for all payroll documents should be reviewed and the proper procedures established to ensure that documents are kept for the required amount of time and stored in a secure, centralized facility.

Because the district is fiscally accountable, it is solely responsible for reporting both CalSTRS and CalPERS earnings and retirement contributions. A random sampling of retirement data revealed inconsistencies and mismatched retirement coding, indicating that the payroll technicians do not have sufficient knowledge or adequate ongoing training regarding retirement reporting. The district should hire a CalSTRS and a CalPERS consultant to provide training for the payroll coordinator and payroll technicians regarding the proper procedures for all retirement reporting functions. In addition, the district should contact the county office of education to help find qualified consultants that can assist in ensuring that reporting was done correctly for prior years and to train payroll staff members in making any necessary corrections.

A review of the September 2010 Federal 941 forms for the elementary and secondary school districts indicated an error in the reported taxable gross wages. Interviews indicated that the district has received notification from the IRS that quarterly tax reports submitted by the district do not match earnings as reported on the W-2 forms in prior years. The district should audit and make necessary corrections to the payroll tax worksheet, Form 941 and the W-2 forms to ensure that wages have been reported correctly. The district should also assign an employee to review the quarterly tax reporting forms after they are prepared by the payroll coordinator and before they are submitted to the reporting agencies.

When comparing the random sampling of federal and state withholding certificates to the September 30, 2010 payroll register, several discrepancies were found, including: the use of an

expired Form W-5, pay records that did not have a W-4 or State DE 4 form on file to support the payroll withholding that was processed, forms that included illegible corrections or strikeouts, pay records that included outdated W-4 and/or DE 4 forms, pay records that did not match the W-4 form on file, and W-4 and/or DE 4 forms that did not include the employee's Social Security number or identify marital status. The district should ensure that current W-4 and DE 4 forms are included in the information provided to new employees and that current forms are used when an employee makes a change to their payroll tax withholding. The district should also request that an employee complete and submit a new W-4 and/or DE 4 form when an invalid form is received and ensure that all employee payroll files include forms that support the withholding amounts included in the payroll system.

The processing of payroll deductions is an integral part of the day-to-day payroll functions and should not be assigned to a management employee, nor should any one employee be assigned responsibility for all voluntary and involuntary deductions. Technicians should be trained to perform this function and proper oversight should be provided by the payroll coordinator. The testing of a random sampling of payroll deductions revealed discrepancies in the following areas: payroll deduction amounts for health insurance differed slightly from the signed authorization form, there was no signed authorization form for a credit union deduction, and there was no signed authorization form in the employee files for initiating or changing a deduction for a tax sheltered annuity. The district should ensure that employee payroll files include a signed authorization form, as applicable, for each voluntary deduction reflected in the payroll system.

The district anticipates moving to the QSS financial software system in July 2011. With the implementation of any new system that affects payroll, it is essential to provide all payroll department staff members with mandatory training in its use. It must be communicated to all staff that knowledge of the use of these systems is necessary to perform payroll functions properly and accurately.





# Findings and Recommendations

## Department Staffing and Structure

The Santa Barbara School Districts are fiscally accountable and thus operate many of the daily financial functions, including the preparation of payroll and vendor warrants, independently from the county office of education. The district's payroll department is comprised of six employees, including a payroll coordinator, four payroll technicians, and one part-time senior office assistant. The department is managed by the payroll coordinator who reports directly to the deputy superintendent of business. The payroll coordinator position was vacant during FCMAT's fieldwork.

The district's payroll is processed for all employees on the last working day of each month through the California Educational Computer Consortium (CECC) financial software system. The Employee Position Information Collaborative System (EPICS) module is used for human resources functions and the Multiple Access with Global Information Control (MAGIC) module is used for payroll functions. The payroll department prepares, processes, and reconciles the payroll and deductions for over 1,500 employees. Duties of the department include the processing of employee voluntary and involuntary deductions, vendor payments for employee deductions, retiree health and welfare benefits, COBRA payments, wage garnishments, electronic deposits, federal and state tax reports, and CalSTRS and CalPERS retirement reports.

The payroll coordinator's duties include overseeing the department, processing all employee payroll deductions including retiree health benefits, completing the required federal and state payroll tax reports, and analyzing the CalSTRS and CalPERS reports.

The senior office assistant's duties include sorting the mail, sorting and disbursing payroll warrants, completing verification of employment and Employment Development Department (EDD) forms, and assisting in reconciling the retiree health benefit payments.

Each of the four payroll technicians is assigned primary payroll and employee absence tracking responsibilities for one of the following groups of employees:

- Elementary certificated staff
- Elementary classified staff
- Secondary certificated staff
- Secondary classified staff

The payroll technicians enter all pay data, including time cards for hourly employees, substitutes, stipends, extra pay for contracted employees, and docked pay into the payroll system and again into an internal Excel spreadsheet. This process takes approximately two weeks, sometimes longer depending on the level of monthly payroll activity. The district uses this two-step process to ensure that the payroll is balanced. An exception report is to be generated and reviewed prior to finalizing each payroll. Interviews indicated that the report is not routinely reviewed nor are the necessary corrections made by the payroll technicians prior to finalizing and closing each payroll cycle.

Double entry of payroll data into separate systems should be eliminated, and the payroll system should be programmed to generate daily audit reports. The audit report should be available for the payroll technicians to review the following day, and necessary corrections should be made to the payroll system. If possible, the system should also display on-screen edits to verify the pay lines and time sheet entries. No further payroll data should be entered one day prior to the close of the payroll cycle. A preliminary payroll register and audit reports should be generated that include every employee who is receiving pay for the month. The payroll technicians should print these reports and compare each pay line with the pay documents. A review of the payroll totals should include the employees' gross to net pay, voluntary deductions and wage garnishments. Any out-of-balance conditions should be corrected prior to finalizing the payroll.

## Organizational Structure

A school district's organizational structure should establish the framework for leadership and the delegation of specific duties and responsibilities. As the district's enrollment increases or declines, the organizational structure should adapt as necessary 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 more effectively supervised.

### 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, and 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.

### 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 Santa Barbara the director of fiscal services has direct line authority over the payroll coordinator, and the payroll coordinator has direct line authority over the payroll department staff. 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 line personnel. The organizational structure of local educational agencies contains both line and staff authority.

The purpose of any organizational structure is to help district management make key decisions to facilitate student learning while balancing its 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.

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 other divisions to identify and resolve problems and design and modify processes and procedures as necessary. Management positions should not be responsible for routine daily functions of the department; these functions should be assigned to department support staff.

The districts' payroll coordinator position is responsible for many non-management tasks, including making adjustments to the payroll system for employee deductions, preparing and transmitting payroll and benefits to the appropriate banking systems, and processing employee insurance deductions. Routine payroll tasks should be reassigned to the payroll technicians so the coordinator has the time necessary to oversee staff members, analyze the work product, and help ensure that internal controls are implemented.

The payroll technicians are classified positions that are included in the California School Employees Association (CSEA) bargaining unit. These positions are responsible for processing all aspects of the payroll including maintaining employee sick/vacation leave benefits, processing wage garnishments, and preparing the monthly CalSTRS and CalPERS retirement reports.

The senior office assistant is a classified position that is included in the CSEA bargaining unit. This position is responsible for completing a variety of technical clerical functions.

To meet the monthly payroll and retirement reporting deadlines, ensure sufficient cross-training, and provide for proper internal controls the district should consider reassigning and reorganizing payroll duties as follows:

- Three payroll technician positions
  - Process the monthly payroll and wage garnishments for all district employees.
    - Assign responsibilities for employees by alphabet rather than by elementary/secondary school district. This would allow for the technicians to be cross-trained in processing both certificated and classified payroll.
  - Process employee and/or district-paid insurance for medical, dental, vision, life insurance, disability plans, Section 125 flexible spending accounts, and all other voluntary and involuntary deductions.
  - Process employee absence tracking.
  - Cross-train and serve as backup for processing the CalSTRS and CalPERS retirement reports.
- Consider reclassifying one payroll technician position to a retirement specialist position. This would require expertise in CalSTRS and CalPERS retirement laws, policies, and regulations.
  - Process all aspects of the reporting and remitting of CalSTRS and CalPERS retirement reports, including:
    - Performing audits and correcting reporting discrepancies.
    - Establishing retirement membership.

- Responding to and resolving employee and retiree questions and concerns.
- Processing refund and rollover applications.
- Processing additional service credit applications.
- Assisting employees with retirement planning and retirement applications.
- Cross-train and serve as backup to payroll technicians who are responsible for processing payroll.
- Consider reclassifying the senior office assistant position to the position of payroll clerk or payroll assistant. The position would be assigned to provide support to the payroll department under the direction of the payroll coordinator and assigned duties that include the following:
  - Assist in processing employee voluntary and involuntary deductions.
  - Reconcile retiree health benefit billing.
  - Reconcile wage garnishment checklist.
  - Burst checks and prepare for distribution to sites.
  - File personnel action forms and miscellaneous deduction forms in employee folders.
  - Verify employment for all employees.
  - Maintain office supplies as needed including forms, card time reports, and worksheets.

## Staffing Comparisons

Data for a comparison of payroll department staffing was obtained from one common administration and four unified school districts in California with student enrollment and staffing levels similar to the Santa Barbara School Districts. The comparison districts surveyed were Santa Rosa, Apple Valley, Paramount, Rowland, and Walnut Valley.

Although comparative information is useful, it should not be considered the only measure of appropriate staffing levels. The state's school districts are complex and vary widely in demographics and resources. Careful evaluation is recommended because generalizations can be misleading if significant circumstances are not taken into account. FCMAT's review considered the following issues:

- The grade-level configuration (common administration, unified)
- The total student enrollment
- The total number of staff

The following table lists the student enrollment and staffing levels of the comparison districts as reflected in the 2009-10 California Department of Education's DataQuest system as well as data obtained from the comparison districts.

### *Comparison of Payroll Department Staffing in Selected California Unified or Common Administration School Districts*

District	Santa Barbara Common Admin	Santa Rosa Common Admin <sup>1</sup>	Apple Valley Unified <sup>2</sup>	Paramount Unified <sup>3</sup>	Rowland Unified <sup>4</sup>	Walnut Valley Unified <sup>5</sup>
Enrollment*	15,663	16,577	15,055	15,836	15,980	14,720
Total Employees*	1,568	1,589	1,468	1,456	1,738	1,222
Payroll Department Staff	Payroll Coordinator	Director Fiscal Services (.20)	Director Fiscal Services (.10)	Asst. Director Fiscal Services (.10)	Payroll Operations Supervisor	Director Fiscal Services (.10)
	Payroll Technician (4)	Payroll Technician III (4)	Payroll/Benefits Specialist (3)	Senior Payroll Technician	Senior Account Clerks (3)	Senior Payroll Technician
	Senior Office Asst. (.63)			Payroll Technician (2)		Payroll Technician
	<b>Total</b>	<b>5.63 FTE</b>	<b>4.20 FTE</b>	<b>3.10 FTE</b>	<b>3.10 FTE</b>	<b>4.0 FTE</b>

\*Source: 2009-10 CDE DataQuest

<sup>1</sup>Santa Rosa – Director of fiscal services oversees payroll staff and spends approximately 20% of her time supervising payroll functions; the district is not fiscally accountable/independent from the county office; human resources technician spends one-two days per month processing certificated substitute pay; human resources and accounting departments are responsible for processing health and welfare benefits for employees and retirees, payroll department makes manual adjustments as needed in the payroll system; garnishments, final STRS/PERS reporting and tax reporting forms are completed by the county office.

<sup>2</sup>Apple Valley – Director of fiscal services oversees payroll staff and spends approximately 10% of his time supervising payroll functions; the district is not fiscally accountable/independent from the county office; one of the payroll specialists is responsible for completing tax reporting forms; payroll department is responsible for processing health and welfare benefits for employees and retirees; garnishments and final STRS/PERS reporting is completed by the county office.

<sup>3</sup>Paramount – Assistant director of fiscal services oversees payroll staff and spends approximately 10% of her time supervising payroll functions and completing tax reporting forms; the district is not fiscally accountable/independent from the county office; payroll department is responsible for updating tables and calendars in position control; fiscal services department is responsible for processing health and welfare benefits for employees and retirees; final STRS/PERS reporting is completed by the county office.

<sup>4</sup>Rowland – Payroll operations supervisor spends 100% of his time overseeing payroll staff and supervising payroll functions and is responsible for completing tax reporting forms; the district is not fiscally accountable/independent from the county office; risk management department is responsible for processing health and welfare benefits for employees and retirees; garnishments and final STRS/PERS reporting is completed by the county office.

<sup>5</sup>Walnut Valley – Director of fiscal services oversees payroll staff and spends approximately 10% of her time supervising payroll functions; the district is not fiscally accountable/independent from the county office; senior payroll technician is responsible for completing tax reporting forms; human resources department is responsible for processing health and welfare benefits for employees; fiscal services department is responsible for retiree health and welfare benefits; garnishments and final STRS/PERS reporting is completed by the county office.

The survey indicates that the number of payroll staff members in the Santa Barbara School Districts is greater than the five comparison districts. In addition, the payroll technicians in all of the comparison districts are responsible for processing payroll deductions. However, because Santa Barbara is a fiscally accountable school district, more staff is needed to complete functions that are often performed at the county office level, including wage garnishments, the final review and submission of the CalPERS and CalSTRS reports, and preparation of W-2 forms. Also, because the Santa Barbara School Districts have a common administration, additional time is

needed to reconcile payroll accounts for employees that are split between the two districts. To obtain a clearer understanding of the amount of time required for the tasks assigned to each position, the district should assign each payroll department staff member to complete a one-month time management analysis.

## Recommendations

*The district should:*

1. Ensure that the payroll technicians review the exception report and make any necessary changes prior to running the preliminary payroll register and finalizing payroll.
2. Consider eliminating double entry of payroll data into separate systems, and program the payroll system to generate daily audit reports.
3. Ensure that the payroll technicians review the daily audit reports and make necessary changes in the payroll system.
4. Ensure that the payroll technicians print a preliminary payroll register and final audit report for each payroll, compare each pay line with the pay documents, and make necessary changes prior to finalizing the payroll.
5. Reassign routine payroll tasks to the payroll technicians, including payroll deductions.
6. Ensure that the payroll coordinator has the time necessary to oversee staff members, analyze the department's work product, and help ensure that internal controls are implemented.
7. Review the job descriptions of the payroll coordinator, payroll technicians, and senior office assistant and ensure that they provide for the proper assignment of duties, work flow, and necessary internal control procedures. Work with the classified bargaining unit as applicable to make any necessary changes.
8. Assign each payroll department staff member the duty of completing a one-month time management analysis of their assigned duties.

# Processes, Procedures and Compliance

## Testing of Payroll Records

The district uses the California Educational Computer Consortium (CECC) software as its financial system. Because the district has not purchased and installed several of the upgrades that have been offered by CECC, the system has become outdated and doesn't meet the district's payroll needs. Several problems were encountered when district staff attempted to download the payroll information from CECC to Excel for FCMAT's review and analysis. The first download was completed using the report writer in the Monarch system and was available in a read-only capacity. The second download process was successful in generating the monthly payroll data in Excel; however, the data included several conversion discrepancies. The Excel payroll file for the month of September contained numerous conversion errors including instances where earnings were attributed to the wrong employees and negative salary adjustments were added as positive amounts to the base salary. The September reports were downloaded again and most of the conversion problems were corrected. During its review of the monthly payroll reports for July through November 2010, FCMAT found there were also errors in the Excel conversion for the remaining months reviewed. However, these errors were corrected manually rather than requesting that the district download all of the reports again.

The district is converting to the Quintessential School Systems (QSS) software system in July 2011, and this should remedy these conversion issues. When making the conversion from the current software system to QSS, the district should consider running both systems simultaneously for a period of time to allow for parallel testing procedures and help ensure the accuracy of payroll data. The ability to easily download data from the financial system to Excel is very important for external review and auditing purposes. Excel contains tools that can rapidly manipulate data for summary and detail analysis, but the data must download correctly before the analysis can be completed.

### Normal Pay Lines

FCMAT completed its analysis using payrolls from the elementary and secondary districts for the months of July through November 2010. A test was performed on the normal pay lines, those with earning codes of NML, NML1 and NML2. A summary table was created for each district displaying the employee's name and columns listing the pay dates for each monthly payroll. The data was then reviewed to determine if there were inconsistencies in the gross amount paid from month to month. Twenty employees from each district were then selected for further review, and FCMAT requested additional information from district staff to verify that the employees were paid correctly and for any anomalies in their pay. Information from district staff indicated that all employees had been paid correctly with the following explanations:

Description	Number of Employees
Assignment change	11
Bad download data	8
Reclassification	6
Paid for prior month earnings	6
Resignation	2
Extended leave	2
Name change	2
Correcting previous error	2
Multiple positions	1

FCMAT found several instances of inaccurate or missing information in the position control file for employees that were receiving pay coded as NML, normal pay. Several certificated employees were flagged as “Employment Agreement” or “Certificated Subs” and were listed with ongoing base monthly pay earnings. One certificated employee that was flagged with a status of “Employment Agreement” has been receiving a monthly base salary of \$5,100 and a monthly car allowance of \$100 for the period of July through November 2010; however, that employee was not listed in the position control file. Additionally, one classified employee has been receiving a monthly base salary of \$3,800 and \$1,400 monthly for working out of class from July through November 2010; this employee was not listed in the district’s position control file.

Inconsistencies were found in the use of the NML earning codes for recording ongoing monthly base salary. Several employees had their monthly earnings coded as HRL1, a code that the payroll technicians use to provide essentially the same function as the NML code. However, these employees were not listed in the position control file although their monthly earnings indicate they are regular employees. For example, one employee had the same base salary during the months of July through November 2010, and another had the same base salary for the months of September through November 2010. The base salary in both cases was coded to HRL1.

#### Additional Earnings

FCMAT completed a test of all the earnings codes to review additional earnings for certificated and classified employees in contracted positions.

Certificated Employees – The district pays coaching stipends with the earnings code HRL1 even though they have an earnings code of COA1. Noon duty supervision, detention supervision, CAHSEE hourly employees and summer school employees are also paid with earnings code HRL1. The district should consider using COA1 for all coaching stipends, thus leaving HRL1 for the other miscellaneous additional earnings.

After identifying the various reasons for the contracted employees’ additional earnings in the secondary district, most of the payments appeared to be reasonable. The files tested included the following seven instances of earnings that required further verification by district staff:

1. The same employee was paid the stipend for tennis coach and for assistant tennis coach.
2. One employee was paid \$8,233 in October and \$11,426 in November, in addition to his regular pay, with the HRL1 earnings code.



3. The same employee was paid \$3,000 in September for “G BBALL” and another \$3,595 in November for “G BBALL.”
4. The same employee was paid on two separate lines for “Cross Coun” in November. One payment was for \$2,799 and the other was for \$2,199.
5. One employee receives \$3,000 a month in addition to his regular salary for “Academy Director.” If this is a regular part of his salary, consideration should be given to including the pay in a normal pay line.
6. One employee received a stipend for car expense of \$3,975 in October and another \$7,875 in November.
7. Two employees received a mileage stipend of \$1,085 in November.

These items were forwarded to the fiscal services and/or human resources departments for review, and the staff indicated that the stipends were approved and correct as paid.

A review of the elementary district’s additional earnings indicated that the district often pays regular child care teachers in excess of \$1,000 per month for “additional teaching” under the earnings code HRL1. An analysis should be completed to determine if the same staff members work extra hours consistently and, if so, determine whether these hours should be added to the annual contracts of the affected employees.

Classified Employees - FCMAT utilized the October 2010 payroll to compare the actual monthly pay earnings and the base monthly/annual salary listed in the district’s position control file. A review of the employee’s base salary, salary adjustments and other earnings was performed. The following items were identified and required further review by district staff:

Description	Number of Employees
Special project stipends	3
Earnings coded as HRL1, appear to be NML	3
Paid in arrears	2
Vacation payoff for fiscal year 2009-10	3
Overtime clarification/calculation error	3
Out-of-class coding errors	2
NML pay/vacation payoff clarification	1

The review indicated a consistent use of pay earnings coded as payment in “ARREARS” for prior period pay adjustments. This situation is often created by the lack of district policies and procedures that require all individuals to be hired using approved hiring practices, including positions for extra duty activities. For example, school site administrators might hire substitutes or hourly employees without following proper district procedures. This creates a time consuming chain of events at the district level, resulting in processing delays or nonpayment if earnings are submitted for an employee that is not in the payroll system. The review also indicated that more consistency is needed in the use of earnings codes.

### New Hires

When a site or department manager makes a request to hire an employee, they contact the human resources department, which completes a Personnel Action Form (PAF). The form then goes to the director of fiscal services or the director of categorical programs for budget approval depending on the funding source. If the request is for a new position, the appropriate department director supplies the proper budget account code and funding approval. The position control technician enters the budget information into the Employee Position Information Collaborative System (EPICS) and creates the new position. To fill an existing position the position control technician audits the budget information to verify that the required information is correct, including the number of hours, days, and funding source. The human resources department is responsible for adding the request for a new position on the governing board agenda and notifying the requesting site/department if the position was approved or disapproved following the board meeting. If the position was approved, the human resources department forwards the PAF to payroll to advise them of the upcoming new hire. When the position is filled, the personnel technician attaches the employee to the approved position in the position control system.

The CECC's payroll system, MAGIC, and the human resources (HR) system, EPICS, are not fully integrated. An electronic bridge, using the HR attribute screens, uploads information from the HR system to the payroll system. Only the employee demographic information, including name, address, birth date, and social security number and the annual base salary calculation is transferred. The Notice of Employment (NOE) generated on the HR system calculates the base annual salary, and provides a calculation of the monthly base salary. The payroll department is responsible for verifying the annual salary based on the employee's pay range and step on the applicable salary schedule. The payroll system then calculates the employee's monthly salary. However, the two systems often calculate pay differently due to items such as work calendars, a mid-year position change, longevity, educational units or degrees, and differential pay. The payroll technicians contact HR if a correction is needed on the original NOE and in the EPICS screens. However, the original NOE is mailed to the employee prior to making any necessary corrections. Interviews indicated that affected employees may not receive the corrected document in a timely manner, or not at all, because employees call with questions regarding their paycheck and often believe there is a payroll mistake.

This discrepancy creates a time-consuming task for the HR and payroll department staff to resolve the monthly base pay difference. This time delay could be avoided by having the human resources department responsible for calculating the annual base salary only, and having the payroll department responsible for verifying the annual salary and calculating the monthly base salary. A copy of the final NOE should then be forwarded to the employee with the correct calculations.

The human resources department is responsible for the hiring process, including advertising the open position, fingerprinting and TB testing. Although the district has hiring procedures in place, they are not consistently followed by site administrators and department managers, particularly when they are filling substitute, hourly and/or temporary positions for extra duty, special projects and extracurricular activities. Sites and departments often hire new employees without the knowledge of the human resources department. Thus, the payroll department is not aware of the new employee until a time sheet is submitted or the employee notifies payroll that they did not receive a paycheck. The district may incur significant liability by allowing this practice to continue. For example, an individual may be working with students before the human resources department determines whether they can be legally employed by the district.

All administrators and department managers must be held responsible for upholding district policies and procedures and for following timelines to submit necessary information to process payroll timely and accurately. The fiscal services, payroll and human resources departments should establish an annual mandatory workshop for all site/department managers and affected clerical staff that is designed to discuss a variety of topics, including the following examples:

- What's new at the district office
- How to hire an employee
- What requires board approval and the approval process
- Position control update
- District policies and procedures
- Changes to the collective bargaining agreements
- Payroll deadlines

### Leaves

Permanent, full-time classified employees of the district accrue paid vacation leave at the following rate per Article VII, Section 1, 1.1 of the collective bargaining agreement with the California School Employees Association (CSEA), Chapter 37:

One (1) through three (3) years of credited service – twelve (12) days.

Four (4) through six (6) years of credited service – fifteen (15) days.

Seven (7) through nine (9) years of credited service – eighteen (18) days.

Ten (10) through fourteen (14) years of credited service – twenty-one (21) days.

Fifteen (15) and more years of credited service – twenty-five (25) days.

Twelve-month employees accrue vacation leave time and take paid time off during the year with the approval of their immediate management supervisor. Employees that work less than 12 months are paid for their vacation leave as they do not routinely take vacation during the school year. The payroll department calculates and accrues the vacation time for the 12-month employees. The human resources department calculates the vacation for employees who work less than 12 months. However, there is a discrepancy between how the two departments calculate the vacation accrual. The payroll department interprets the contract to mean that at the beginning of the fourth year of service the accrual rate increases to 15 days per year. The human resources department interprets the contract to mean that at the end of the fourth year of service the accrual rate increases to 15 days per year. Based on the language included in the collective bargaining agreement, it appears that the payroll department is interpreting the contract correctly. However, the district needs to determine which interpretation is correct and apply it consistently for all classified employees. When agreements that affect payroll processes and procedures are negotiated in the future, a mandatory meeting needs to be conducted with human resources, payroll, and the appropriate technology staff so that the new changes are understood and can be implemented correctly by all affected departments.

In May 2007, the district signed a settlement agreement with CSEA, which states in part:

When the District believes an employee has been overpaid, the District is not entitled to stop payment on a check or deduct the money from a paycheck without first obtaining the employee's written agreement ...

The agreement further states that the district will notify the employee by certified mail and offer a "reasonable" repayment plan. The agreement also states that no classified bargaining unit employee will participate in this notification; rather, it must be completed by district management. If the employee refuses to sign a repayment plan, the only recourse left to the district is to obtain a court order; then the district can deduct the overpayment from the employee's paycheck.

The process for notification requires the payroll technician to inform the human resources department when balances are negative. The human resources department is responsible for sending a certified letter to the employee that includes the date the balance became negative, the amount that must be repaid to the district, and a repayment plan. This notification procedure is not required for certificated staff. Interviews indicated that as a direct result of this agreement, no deductions have been made for overuse of sick leave, or sick leave taken but not earned, during the 2009-10 fiscal year as the official notifications have not been sent by district management. At the time of fieldwork it was not determined if the 2010-11 negative leave balances are being processed timely.

As a result of this agreement, if a classified employee uses leave that has not been earned, most commonly sick leave, the district cannot deduct for the overpayment until the classified employee returns the certified mail notification or the district files a small claims court appeal to authorize the repayment of unauthorized sick leave. This problem is exacerbated by the fact that salaried employees are paid their normal salary at the end of each month and absences are posted a month in arrears. The leave balances are reflected on the employee's pay stub each month. While school districts are not able to make automatic deductions from payroll for district errors, standard industry practice provides for districts to automatically deduct amounts for an employee's overuse of leave time. This is typically done a month in arrears for any time overused in the previous month. The district should meet with CSEA and renegotiate the settlement agreement so it is consistent with standard industry practice and applicable law.

The certificated sick leave was recently audited by the payroll department. During this review staff found that some teachers working an extra period were credited with 96 hours of sick leave per school year rather than 80 hours as provided for in the certificated collective bargaining agreement. In addition, some of the teachers working the extra period were being docked at 9.6 hours when they should be docked at eight hours per day. Interviews indicated that these errors, dating back to the 2006-07 fiscal year, have been corrected and the affected teachers' sick leave accruals were adjusted accordingly. The teachers were notified by e-mail if their sick leave accrual was changed. Although the sick leave discrepancies were discovered and corrected by district personnel, this issue indicates that additional training is needed for the payroll department staff members, and clear direction and necessary oversight needs to be provided by district management for payroll functions.

The payroll department also audited records for management employees with 215-day work calendars and child development program employees with 225-day work calendars and found

that these employees had been given vacation accruals to which they were not entitled. These issues were in the process of being resolved at the time of FCMAT's fieldwork.

### **Confidential Employees**

Interviews indicated that confidential employees are not being compensated for overtime when they work more than eight hours per day. Under federal law, the Fair Labor Standards Act, and/or state law, Education Code Sections 45127 and 45128, classified employees must be compensated at the overtime rate for time worked beyond eight hours per day or 40 hours per week. However, some exemptions are applied for certain employees in executive, managerial, or supervisory positions. The United States Department of Labor explains how these exemptions may be applied on the following website:

<http://www.dol.gov/compliance/topics/wages-overtime-pay.htm>.

Depending on a position's job description and assigned duties, a confidential employee may not be an overtime exempt employee. Confidential means that the employee has access to the employer's confidential collective bargaining information and is thus prohibited from being included in any collective bargaining unit. Therefore, the designation of a position as confidential does not automatically qualify an employee to be overtime exempt. The position must qualify for exemption as outlined in federal and state law. The district should review the overtime exemptions as outlined by the United States Department of Labor and consult with its legal counsel to determine if each position that has been designated as confidential is overtime exempt.

## **Recommendations**

*The district should:*

1. When converting to QSS, consider running the current software system parallel to QSS for a period of time to help ensure the accuracy of payroll data.
2. Ensure that all contracted employees have a valid, board-approved position that is included in the district's position control system.
3. Consider bringing in an outside expert in human resources/payroll functions to provide training and guidance in the proper use of earnings codes.
4. Develop and implement a master list of earnings codes to provide consistency and accuracy in their use and to provide meaningful information on employees' pay stubs and other printed information.
5. Complete an analysis of the additional hours worked by child care teachers to determine if the hours should be added to the employees' annual contract pay.
6. Revise the flow of the NOE to ensure that the human resources and payroll departments agree on the payroll calculations before a copy of the form is sent to the employee.

7. Ensure that all employees, sites and departments are notified in writing regarding payroll submission deadlines and are held accountable for following them.
8. Provide school site administrators, department managers, and applicable office personnel with proper training and guidelines regarding the district's hiring procedures and hold them accountable if procedures are not followed.
9. Consider discontinuing the requirement for the human resources department to manually calculate the monthly earnings for employees.
10. Determine the correct interpretation of the CSEA collective bargaining agreement regarding vacation accruals, and ensure that the human resources and payroll departments apply the interpretation consistently.
11. Conduct a mandatory meeting with the human resources, payroll and technology staff when agreements are negotiated that affect payroll processes and procedures.
12. Meet with CSEA and renegotiate the settlement agreement regarding overpayments to make the process less cumbersome and consistent with standard industry practice.
13. Ensure that proper training has been provided to the payroll department staff members for all of their assigned areas of responsibility and that clear direction and necessary oversight is provided by district management.
14. Review the overtime exemptions as outlined by the United States Department of Labor and consult with legal counsel to determine if each position that has been designated as confidential is overtime exempt.

## 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, serious errors and fraud. All educational agencies should establish internal control procedures to perform the following:

1. Prevent internal controls from being overridden by management.
2. Ensure ongoing state and federal compliance.
3. Provide assurance to management that the internal control system is sound.
4. Help identify and correct inefficient processes.
5. 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 properly 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.

**Use of pre-numbered documents**

An outside printer should print checks, sales/cash receipts, purchase orders, receiving reports and tickets. Physical controls should be maintained over the check stock, cash receipt books and tickets. It is not sufficient to simply use pre-numbered documents. A log of the documents and numbers should be maintained and reconciliation performed periodically.

**Asset security**

Cash should be deposited daily, computer equipment should be secured, and access to supplies/stores, food stock, tools and gasoline should be restricted to designated employees.

**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 processes payroll should not maintain the check stock.

**Comprehensive annual budget**

The annual budget should include revenues and expenditures by school site, department and resource in sufficient detail to identify variances and determine whether financial goals were achieved. Material variances in revenues and expenditures should be investigated promptly and thoroughly.

**Inventory records**

Inventory records should be maintained that identify the items and quantities purchased and sold or designated as surplus. Physical inventory should be taken periodically and reconciled with inventory records. Typical inventoried items include computer equipment, warehouse supplies, food service commodities, maintenance and transportation parts, and student store goods.

In 2008 the payroll department was reorganized and staffing was increased from two to four payroll technicians, and in 2010 a part-time senior office assistant was added. During the reorganization of the payroll department, the accounting/payroll coordinator position was changed to a full-time payroll coordinator. However, the work flow, the integrity of the payroll data and reporting, meeting payroll deadlines, and communication with other departments and employees has been lacking.

During the September 2010 health benefit open enrollment period, a change in the district's health care provider required the payroll coordinator to create new payroll deduction codes. With the help of the new senior office assistant, open enrollment was processed for the district's employees and retirees. However, it was later discovered that prior to the close of the payroll cycle, the September payroll prelist report was not generated and used to identify any exceptions. This resulted in over 180 employees having both the employee and employer portions of the health benefit premium deducted from their paychecks.

With the resignation of the payroll coordinator in September 2010, no one in the payroll department was assigned to make payroll deduction corrections, adjustments or additions for new employees in the payroll system. Although the payroll technician job description allows for employees assigned to the position to "respond to questions regarding deductions" and "perform related duties as assigned," the technicians believe that this responsibility is not within their job duties and have refused to do it. During FCMAT's fieldwork, employee deductions were being entered into the payroll system by the fiscal services department staff, including the internal auditor and the position control technician.

The payroll coordinator is a management position. The role of the position is to supervise, oversee, and direct the policies and procedures for the districtwide payroll operations. The position requires school-related, technical payroll skills. However, the position should not process the day-to-day routine payroll functions. The current job description indicates that one of the coordinator's duties is to process employee voluntary and involuntary deductions. However, this task should not be assigned to the payroll coordinator as it is a routine function of support staff and does not provide for the necessary checks and balances needed for proper internal controls. This payroll task should be assigned to the payroll technicians.

In addition, assigning staff from the fiscal services department the task of employee payroll deductions is problematic, because their job descriptions are not clearly defined to allow for this work to be assigned to them routinely. It also does not provide for the proper separation of duties because it allows some staff members to have access to all of the financial screens necessary to add and pay an individual, and does not provide the internal auditor the ability to audit the payroll reports because she has also performed routine payroll functions.

Employee wage garnishments are received and processed by one payroll technician. This technician receives the wage order, calculates the amount owed, enters the deduction into the payroll system, receives the vendor payment from accounts payable, reconciles the garnishment check list with the checks, and mails the garnishment checks to the proper agencies. Assigning all of the duties related to processing wage garnishments to one employee does not provide for proper review and oversight of the function. The payroll technician position requires expertise in federal, state, and local wage garnishment laws, and the duty of processing wage garnishments should be shared by at least two payroll technicians. In addition, the duty of reconciling the garnishment check list with the checks should be assigned to a different payroll employee.



Desk procedure manuals help ensure proper internal controls and provide a better understanding of each position's responsibilities. The manuals can also be a valuable tool for completing necessary payroll functions when the employee normally assigned to a particular duty is absent. The payroll department lacks desk manuals that include step-by-step procedures for each job duty.

As indicated earlier in this report, cross-training is essential to ensure that all employees are able to use accrued vacation time. However, interviews indicated that there have been occasions when all four of the district's payroll technicians have taken leave on the same day. The district should ensure that all of the technicians do not take leave at the same time in the future, particularly on paydays, as this does not support some of the reasons for cross-training and does not provide the expected level of customer service related to payroll functions.

## Recommendations

*The district should:*

1. Assign the task of processing payroll deductions to the payroll technicians.
2. Assign the task of processing wage garnishments to at least two payroll technicians and the task of reconciling the garnishment check list with the checks to a different payroll employee.
3. Assign each payroll department staff member to complete step-by-step procedures for each of their job duties and include these procedures in a desk manual.
4. Ensure that all payroll technicians do not take accrued leave at the same time, particularly on paydays.

## Payroll Cycles

All district employees are paid on the last working day of the month. This includes regular salaried, substitutes, and hourly employees. To meet the current payroll deadlines, all notice of employment forms, time cards, extra duty pay requests, personnel action forms, employee absence reports, and voluntary deductions must be processed by the 15th day of each month. Time also is needed to process wage garnishments prior to finalizing the payroll. Often this does not leave enough time for the payroll staff to process the monthly payroll with confidence and accuracy. A supplemental payroll paid on the 10th day of each month for substitutes, hourly employees, extra duty pay, and stipends would help relieve this burden. To implement this additional pay cycle, many district policies and procedures would need to be reviewed and implemented and various federal/state agencies would need to be consulted. For example:

- New payroll deadlines would need to be established.
- New payroll forms would need to be implemented.
- Social Security, Medicare, federal and state income tax, and state disability insurance deposits and reporting timelines would need to be reviewed.
- Wage garnishment and court ordered processing deadlines would need to be reviewed.

- CalSTRS and CalPERS would need to be contacted for reporting and remitting timelines.

Following are examples of payroll deadlines that the district could establish if a supplementary payroll cycle were implemented:

Supplemental payroll paid on the 10th of each month for substitutes, hourly employees, extra duty, and stipends

- Pay cycle would cover 17th of one month through the 16th of the following month.
- Deadline would be the 20th of the month for the following documents to be submitted to the payroll department:
  - Notice of employment (new hire paperwork)
  - Substitute and hourly time reports
  - Extra duty and stipend pay reports
- Payroll staff closes the payroll and runs a pre-list report five days before payday.

Month-end payroll paid on the last working day of each month for regular salaried employees

- Pay cycle is the 1st – 31st of each month
- Deadline is the 15th of the month for the following documents to be submitted to the payroll department:
  - Notice of employment (new hire paperwork)
  - Personnel action forms (changes to salary)
  - Monthly employee absence report (pay docks)
  - Voluntary/involuntary deductions (health benefits, tax sheltered annuities, etc.)
- Payroll staff closes the payroll and runs a pre-list report five days before payday

It is standard industry practice for districts to have at least two payroll cycles per month. The districts that were surveyed for staffing comparison purposes included earlier in this report all have at least two payroll cycles per month.

The district pays its salaried certificated employees on either a September through June or September through August payroll cycle. The 2010-11 and 2011-12 traditional school calendars indicate that teachers start work in August rather than September. The district should contact CalSTRS and get clarification regarding whether certificated employees that start work in August are to be considered 11-month rather than 10-month employees for payroll purposes.

## Recommendations

*The district should:*

1. Consider implementing a monthly supplemental payroll cycle.
2. Contact CalSTRS and get clarification regarding whether certificated employees that begin work in August are to be considered 11-month rather than 10-month employees for payroll purposes.

## December/January Payroll Split

The district currently delays the December month-end payroll to the first working day in January for certificated employees. This practice does not occur in all school districts, and the Santa Barbara School Districts have decided to end the payroll split effective December 2011. However, several issues, including tax payments and reporting, must be considered before moving the January payment back to the last working day of December as affected employees would receive 13 paychecks in one calendar year during the first year of implementation. This would affect each employee's federal and state income taxes as well as reporting ramifications for the following:

- Social Security, Medicare and state disability insurance reporting
- Tax sheltered annuities, 403(b), and deferred compensations plans, 457(b)
- Pre-taxed health benefit payroll contributions
- Wage garnishments and other court ordered payments
- Employee union deductions
- Other employee voluntary deductions

A committee should be established to evaluate all of the required changes before moving the January pay date to the last working day in December. The committee should work closely with all involved agencies and membership should include the deputy superintendent of business services, director of human resources, coordinator of classified personnel, director of fiscal services, payroll coordinator, and technology coordinator. Communication with the certificated bargaining unit leadership and certificated employees is essential.

## Recommendations

*The district should:*

1. Consider establishing a committee to evaluate all of the required changes before moving the January pay date to the last working day in December for certificated employees.

## Records Processing Procedures and File Management

The sites complete two different monthly time report summaries every month. One is used to report positive attendance for time worked by hourly employees and any extra time for contract salaried employees. The second report is used to record negative attendance for contracted salaried employees and includes a specified code for each day of absence.

Substitutes, hourly employees, and employees working extra time complete and submit a paper time card to their supervisor at the end of each month. The supervisor forwards the time card to the site/department secretary, who re-enters the data on a summary monthly time report. The summary report utilized to report time worked has a column for the employee's name, work performed, time worked, rate of pay, stipend amount, amount to pay, district number, account code, funding description and the governing board approval date. The individual completing the form and the supervisor sign it. The form is then submitted to the payroll department for processing. Some sites/departments attach copies of the original time sheets to the summary report and some do not. However, the original time sheet documents that support the time claimed and recorded on the summary report are not submitted to the payroll department.

The second summary report is used to report absences and includes columns for the employee's name, position name, number and assigned daily work hours, and columns for each day of the month. The site/department secretary uses the original absence tracking documents to determine the absence codes that are entered on the summary report for each day of absence. The code describes the type of absence, such as sick, vacation, or personal necessity. The individual completing the summary form and the supervisor sign it. The summary form is then submitted to the payroll department for processing. Some sites/departments attach copies of the original absence tracking forms and some do not. However, the original absence tracking forms that support the time claimed and recorded on the summary report are not submitted to the payroll department.

The payroll department technicians are not aware of whether the original time sheets and absence tracking forms are kept or where they may be stored. All original payroll documents should be submitted to the payroll department. In addition, documents used to process payroll have a required retention period. The retention period for all payroll documents should be reviewed and the proper procedures established to ensure that documents are kept for the required amount of time and stored in a secure, centralized facility.

The practice of entering data into the payroll system from summarized sheets rather than original documents has the potential for errors and/or fraud. These errors could occur when the site/department secretary is completing the summary sheet or when the payroll technicians are interpreting the data from the summary sheets. Proper business procedures are to enter payroll information from the original source document that includes the signature of the employee and their supervisor.

The California Code of Regulations requires school districts to maintain permanent employee records. Title 5, Division 1, Chapter 16, Subchapter 2, Article 2, Section 16023 states:

The original of each of the records listed in this section, or one exact copy thereof when the original is required by law to be filed with another agency, is a Class 1 - Permanent record and shall be retained indefinitely, unless microfilmed in accordance with Section 16022(c)...

(c) Personnel Records.

(1) Employees.

All detail records relating to employment, assignment, amounts and dates of service rendered, termination or dismissal of an employee in any position, sick leave record, rate of compensation, salaries or wages paid, deductions or withholdings made and the person or agency to whom such amounts were paid. In lieu of the detail records, a complete proven summary payroll record for every employee of the school district containing the same data may be classified as Class 1 - Permanent, and the detail records may then be classified as Class 3 - Disposable.

Section 16026 further states:

A Class 3 - Disposable record shall not be destroyed until after the third July 1 succeeding the completion of the audit required by Education Code Section 41020 or of any other legally required audit, or after the ending date of any retention period required by any agency other than the State of California, whichever date is later. A continuing record shall not be destroyed until the fourth year after it has been classified as Class 3 - Disposable.

To meet this requirement, the payroll department filing system should have a separate payroll file for every employee. The file should include:

- The calculation of the employee's regular rate of pay
- W-4 and DE 4 forms
- Authorization from the employee for any voluntary deductions, including a salary reduction form for any tax sheltered annuities and health insurance elections
- Authorization from issuing agency for any involuntary deductions or garnishments
- Absence records including leaves of absence
- Documentation of any stipends paid to the employee
- Documentation of any salary adjustments including repayment of salary
- Authorization form for direct deposit of paycheck, if applicable

The information used to generate each monthly payroll, such as time sheets and absence tracking forms, are typically filed separately and grouped together by month.

Interviews indicated that information is missing or cannot be located in the payroll department files, including the following:

- Current or prior years' personnel action forms and notices of employment
- Current or prior years' health insurance election forms
- Supporting documentation for salary repayments
- Documentation for voluntary deductions such as life insurance and disability insurance

In addition to the missing information in the files, interviews indicated that there have been instances in which the complete file for a particular employee is missing and cannot be found.

## Recommendations

*The district should:*

1. Ensure that all original payroll documents, including time sheets and absence tracking forms, are submitted to the payroll department and are used to process payroll.
2. Ensure that all time sheet forms include columns for the position worked and account code.
3. Review the required retention period for all payroll documents and establish the proper board policies and procedures to ensure that documents are kept for the required amount of time and stored in a secure, centralized facility.
4. Review filing procedures to ensure that the payroll department has a file for each employee and that staff members understand and are following the California Code of Regulations and board policies regarding records retention for payroll documents.

## Position Control Integration

EPICS is the position control component of the CECC software the district uses as its financial operating system. The CECC's payroll system, MAGIC, does not pass information directly to EPICS so there is bridge software that connects the two systems. CECC has told the district that it will be five years before the software is able to run payroll directly off of EPICS. This is one reason the district plans to convert to the QSS software in July 2011.

New positions are created in EPICS by the position control technician after they have been approved by the governing board. Human resources department staff members are charged with the hiring process of all employees. They are responsible for attaching the new employee's information to the board-approved position, including updating the demographic data, starting salary information, hire date and other personnel-related information. A checklist recently was created by staff to ensure that all required information is provided to/from the new hire and entered properly into the EPICS system. A Notice of Employment Form is subsequently generated from EPICS and submitted to payroll to notify that department that a new employee has been established and moved to MAGIC, the payroll system. However, the payroll department does not use a checklist when entering data for new hires in the payroll system.

When the position is filled and the personnel technician attaches the employee to the position, the technician has access to the EPICS screens but not the MAGIC screens. Interviews indicated that payroll information may be different in the two systems. For example, the EPICS screens include step and column but not longevity information. Also, when stipend and extra duty pay data is entered in EPICS it does not affect the payroll system, and that data must be re-entered in MAGIC by the payroll department staff.

Although internal controls are in place for the personnel technician position, with the lack of change access to both EPICS and MAGIC the same controls are not in place for the position

control technician. This employee is able to create new positions in the position control system, make changes to existing positions, make changes in the payroll system, and is responsible for making all journal entries to correct errors in payroll and employee benefit postings. When needed, she helps the payroll department enter the monthly payroll data. The employee in this position is knowledgeable in both the position control and payroll systems. When this position was created in 2009, the goal was to facilitate the flow of paperwork between the human resources, payroll and fiscal services departments with regard to the position control and payroll systems. However, the district should review the position control technician job description to guarantee that assigned duties do not require change access for both EPICS and MAGIC because unlimited access to both systems does not provide for proper internal controls.

In addition to EPICS and MAGIC, the district is developing an in-house Web-based Staff Time and Reporting System (STARS). The system was created to streamline the approval process for new or changed employee status and decrease the amount of paper used. This system allows electronic completion of the approval process. The automatic tracking system will make it possible to determine exactly where the document is in the approval process at any point in time. When the information is approved in STARS, it is electronically routed to position control, human resources, and payroll. The district anticipates that this system will expand to include absence tracking and will eliminate the need for time cards. It is being tested at the district level on classified staff changes. Additional programming is needed before it can be tested on certificated staff changes.

Two of the payroll technicians have attended STARS training provided by the human resources department; however, the other three payroll department staff members have not yet been trained in its use. In addition, the information technology (IT) employee that created and maintains this system is leaving the district at the end of this fiscal year, and another IT employee has not yet been trained in all of the technology and programming functions related to STARS. Because the district anticipates moving to QSS in July 2011, staff should consult with QSS to determine if STARS will still be necessary or if QSS can provide the same service. If it is necessary to continue using STARS, the district should determine how it will integrate with the QSS software without causing a duplication of data entry or other processes, and should ensure that all payroll staff members and more than one IT staff member are trained in STARS.

With the implementation of any new system that affects payroll, including QSS and STARS, it is essential that all payroll department staff members are provided and attend mandatory training in its use. It must be communicated to all staff that knowledge of the use of these systems is necessary to perform payroll functions properly.

## Recommendations

*The district should:*

1. Assign the payroll department to develop and implement a new hire checklist for use in entering data in the payroll system.
2. Review the position control technician job description to ensure that assigned duties do not require change access for both EPICS and MAGIC.
3. Contact QSS to determine if STARS will be necessary when the QSS software is implemented. If continued use is necessary, determine how STARS

will integrate with the QSS software and train all payroll staff and more than one IT staff member.

4. Ensure that all payroll staff members are provided and attend mandatory training for all systems that affect payroll functions.

## CalSTRS and CalPERS Contributions and Reporting

Because the district is fiscally accountable, it is solely responsible for the complex reporting and timely remitting of both CalSTRS and CalPERS earnings and retirement contributions and does not receive these services from the county office of education. Two payroll technicians are assigned to this responsibility in addition to preparing and processing their section of the monthly payroll. One payroll technician is responsible for CalSTRS reporting for the elementary and secondary districts, while the other technician is responsible for CalPERS reporting.

Although online training, webinars, and additional resources such as email alerts are available from both agencies (SEW/REAP for CalSTRS and ACES for CalPERS), neither payroll technician has had adequate or ongoing training when new policies or directives are implemented. All four payroll technicians are responsible for assisting with questions from employees and retirees concerning service credit. However, it was reported that there have been delays in resolving reporting discrepancies for employees and retirees, and interviews indicated that there may be reporting errors dating back to 2002.

School district retirement reporting is very complex and often difficult to interpret without adequate training directly from the CalSTRS and CalPERS reporting units in Sacramento. Each reporting code calculates the STRS/PERS member's annual pay factor and service credit. The pay factor (or final compensation), service credit, and the member's age is used to calculate retirement benefits. When a reporting error is made it affects the retiree's benefits. The district should hire CalSTRS and CalPERS consultants to provide on-site training for the payroll coordinator and technicians regarding the proper procedures for establishing retirement membership, accurately processing monthly retirement reports, performing monthly audits, and processing corrections. In addition, the district should contact the county office of education to inquire whether there are qualified consultants that can assist the district in ensuring that reporting was done correctly for prior years and to assist and train payroll staff members in making any necessary corrections to prior year reports.

A random selection of the July through November 2010 certificated and classified retirement payroll data for the elementary and secondary school districts was reviewed. The retirement test consisted of comparing the payroll earnings type/code to the retirement codes, pay rates, and pay frequency. The testing results found inconsistencies and/or mismatched coding in the following areas:

### Test 1 - DIF1 (Special Assignment Differential)

This code was reported in both the elementary and secondary districts with a variety of unit or daily pay rates. Six different retirement codes and three pay frequencies, 1, 10 and 12 were used.

- Elementary district (44 pay lines reviewed)
  - Retirement codes reported: 55-0-1; 57-0-6; 57-3-1
- Secondary district (69 pay lines reviewed)
  - Retirement codes reported: 55-0-1; 55-0-6; 57-0-6; 57-1-1; 57-3-1; 08-9-6



**Test 2 - CAR2 (Car Allowance)**

This code was reported in both districts with a variety of unit or daily pay rates. Four different retirement codes and two pay frequencies, 10 and 12, were used.

- Elementary district (86 pay lines reviewed)
  - Retirement codes reported: 08-1-9; 47-0-6; 57-0-6
- Secondary district (231 pay lines reviewed)
  - Retirement codes reported: 08-1-9; 57-0-6; 61-8-1

**Test 3 - COA1 (Coaching with Retirement)**

This code was only reported in the secondary district with a variety of unit or daily pay rates. Three different retirement codes and two pay frequencies, 10 and 12, were used.

- Secondary district (160 pay lines reviewed)
  - Retirement codes reported: 55-0-1; 55-4-1; 57-3-1

**Test 4 - DPT1 (Department Chair with Release Time)**

This code was only reported in the secondary district with a variety of unit or daily pay rates. Three different retirement codes and one pay frequency, 10, was used.

- Secondary district (15 pay lines reviewed)
  - Retirement codes reported: 08-9-6; 57-0-6; 57-3-1

**Test 5 - DPT2 (Department Chair No Release Time)**

This code was reported in both districts with a variety of unit or daily pay rates. Three different retirement codes and three pay frequencies, 1, 10 and 12, were used.

- Elementary district (45 pay lines reviewed)
  - Retirement codes reported: 45-0-1; 55-0-1
- Secondary district (304 pay lines reviewed)
  - Retirement codes reported: 55-0-1; 55-0-3

**Test 6 - HRLY1 (Hourly With Retirement)**

This code was reported in both districts with a variety of hourly, unit or daily pay rates, and/or stipend type payments. Fifteen different retirement codes were used and pay frequencies range from 1-15.

- Elementary district (798 pay lines reviewed)
  - Retirement codes reported: 08-4-1; 08-4-3; 08-4-5; 54-4-1; 54-8-9; 55-0-1; 55-0-3; 55-4-3;
- Secondary district (680 pay lines reviewed)
  - Retirement codes reported: 08-4-1; 08-4-3; 08-4-5; 08-4-9; 08-8-1; 08-9-6; 54-0-1; 54-4-1; 54-8-1; 55-0-1; 55-0-3; 54-4-1; 55-8-1

**Test 7 - HRLY2 (Hourly No Retirement)**

This code was reported in both districts with a variety of hourly, unit or daily pay rates, and/or stipend type payments. Twenty-one different retirement codes were used and pay frequencies range from 1-12.

- Elementary district (557 pay lines reviewed)
  - Retirement codes reported: 00-4-1; 08-4-1; 08-4-3; 08-4-9; 08-8-9; 54-4-1; 54-8-1; 55-0-1; 61-4-1; 61-8-1; 99-9-9
- Secondary district (461 pay lines reviewed)
  - Retirement codes reported: 00-4-1; 08-1-1; 08-4-1; 08-4-9; 08-8-1; 08-9-6; 08-9-9; 54-4-1; 54-4-9; 54-8-1; 54-8-9; 55-0-1; 55-4-1; 55-4-9; 55-8-1; 61-4-1; 61-4-3; 61-8-1; 99-9-9

**Test 8 - NML1 (Employment Agreement with Retirement)**

This code was reported in the elementary district only with a variety of unit or daily pay rates. Three different retirement codes and pay frequencies ranging from 1-12 were used.

- Elementary district (137 pay lines reviewed)
  - Retirement codes reported: 08-1-1; 08-4-1; 55-0-1

**Test 9 - NML2 (Employment Agreement No Retirement)**

This code was reported in both districts with a variety of unit or daily pay rates, and/or stipend type payments. Four different retirement codes and five pay frequencies ranging from 1-10 were used.

- Elementary district (21 pay lines reviewed)
  - Retirement codes reported: 55-0-1; 57-3-1; 61-1-1; 61-5-1
- Secondary district (20 pay lines reviewed)
  - Retirement codes reported: 55-0-1; 57-3-1; 61-3-1

**Test 10 - NML (Normal Pay)**

This code was reported in both districts with a variety of monthly, unit or daily pay rates, and/or stipend type payments. Eighteen different retirement codes and pay frequencies ranging from 1-15 were used.

- Elementary district (3,167 pay lines reviewed)
  - Retirement codes reported: 08-1-1; 08-4-1; 08-4-3; 08-4-5; 47-1-1; 47-1-3; 55-0-1; 55-0-3; 57-1-1; 57-1-3; 57-2-1; 57-2-3; 57-3-1; 57-3-3; 61-3-1
- Secondary district (4,585 pay lines reviewed)
  - Retirement codes reported: 08-1-1; 08-4-1; 08-4-3; 08-8-9; 55-0-1; 57-1-1; 57-3-1; 57-3-3; 57-3-9; 61-1-1; 61-3-1

To provide coding consistency and correct reporting, the district should develop a master position and pay list for each earnings type with the correct CalSTRS and CalPERS retirement type identified. The list should be developed jointly by the human resources and payroll departments, and codes should be included in the position control file if the system provides for this function. For certificated positions, the human resources department would determine if the assignment requires release time or no release time for proper CalSTRS AB 2700 defined benefit (DB) or defined benefit supplemental (DBS) retirement reporting purposes. Once the master list is completed, payroll staff would determine the proper retirement coding. This list would be shared and updated when a new earnings type is added or changed.

## Recommendations

*The district should:*

1. Consult with CalSTRS and CalPERS administration for on-site training and continuous education for the payroll staff members responsible for retirement reporting.
2. Contact the county office of education to inquire whether there are qualified consultants that can assist the district in ensuring that retirement reporting was done correctly for prior years and to assist and train the payroll department staff members in making any necessary corrections.
3. Develop a master position and pay list for each earnings type with the correct CalSTRS and CalPERS retirement type identified.

## Unemployment Compensation and Quarterly Tax Processing and Reporting

The following documents were used to test the September 2010 quarterly tax reporting for the federal Form 941 and the California Unemployment Form DE 9423:

- Payroll Tax Worksheet (Excel file)
- PYR250 (payroll register)
- PYR510 (employee payroll earning final)
- PYR750 (quarterly report prelist)
- PYR830 (employee payroll history report)

The components used to balance the payroll and report the quarterly employment taxes are comprised of entering the PYR250 monthly payroll totals and the pay adjustments from the PYR750 for the elementary and secondary districts into the quarterly payroll tax Excel worksheet. The monthly totals include the gross pay, pre-tax deductions, Social Security (FICA); Medicare, federal income tax (FIT) and state income tax (SIT) wages and tax contributions. The summary total for each district is compared to the quarterly totals from the PYR830 report. The differences between the totals are due to the “twinning” of employee records. This is a process

whereby salaries are split between employees working for both the elementary and high school districts. The testing concluded that the September 2010 quarterly payroll report totals balance to the payroll tax worksheet.

Based on the reports provided, the state unemployment reports, Forms DE 9423, for both the elementary and secondary school districts are correct.

The following two reporting errors were found on federal Form 941, Employer's Quarterly Federal Tax Returns, for both the elementary and secondary school districts:

- **Part 1, Line 2 (Wages, tips, and other compensation)**

This line reflects the employee's gross wages. However, the wages that should be reported on this line, and on the employee's W-2, is the employee's taxable gross wages. Taxable gross wages are gross wages less all pretax payroll contributions/ deductions. This includes 403(b) and 457(b) contributions, pretax Section 125 deductions, and all pretax CalSTRS and CalPERS retirement contributions.

The district's 2010 payroll tax worksheet, spreadsheet entitled QTR3ReturnFed, line entitled Wages, is reporting the employee's gross wages rather than the adjusted taxable gross wages. The worksheet is pulling information as follows from column D rather than column J of the QTR3WORK spreadsheet:

	<b>Column D - Gross Wages</b>	<b>Column J - Taxable Gross</b>
Elementary	Line D55 \$5,596,541.61	Line J55 \$4,891,860.05
Secondary	Line J114 \$7,488,031.87	Line J114 \$6,530,289.36

Interviews indicated that the district has received notification from the IRS that quarterly tax reports submitted by the district do not match earnings as reported on the W-2 forms in prior years. The district should audit and make necessary corrections to the following reports and documents to ensure that wages have been reported correctly:

- Payroll Tax Worksheet
- Federal Form 941 for all affected quarters
- W-2 forms for all affected years

- **Part 2, Line 17 (Tell us about your deposit schedule and tax liability for the quarter)**

Because the district checked the box stating "You were a semiweekly scheduled depositor for any part of this quarter. Complete Schedule B (Form 941)...", the district should not complete the section in Part 2 for monthly depositors.

The payroll coordinator position is assigned to complete the quarterly tax reporting. However, another employee is not assigned to review the forms before they are submitted to the respective reporting agencies.

## Recommendations

*The district should:*

1. Audit and make any necessary corrections to the payroll tax worksheet, federal Form 941 and the W-2 forms.
2. Leave the section in Part 2 of federal Form 941 blank when filing as a semi-weekly schedule depositor.
3. Assign an employee to review the quarterly tax reporting forms after they are prepared by the payroll coordinator and before they are submitted to the reporting agencies.

## Federal and State Withholding Allowances

### **Form W-4 and Form DE 4 (Federal and State Withholding Allowance Certificates)**

When initially hired all employees must submit a completed and signed federal Form W-4 to the district. Form W-4 is used for federal income tax withholding purposes. The form is also valid for California income tax withholding if the employee wishes to claim the same marital status, number of regular allowances, and/or the same additional dollar amount to be withheld. The staff indicated that the district does not provide the state Form DE 4 in the hiring documentation given to new employees. However, if an employee requests the form, it is downloaded and given to them to complete. The district should include the Form DE 4 in the information provided to new employees and have it available in the human resources and payroll departments for employees upon request. The district should also consider including links to the IRS and Employment Development Department (EDD) on its website so employees can easily access and print tax forms as needed.

### **Outdated Tax Withholding Certificates**

At the beginning of each calendar year, the IRS and EDD issue new tax year W-4 and DE 4 employee withholding certificates that include the new tax tables and an employee deduction worksheet. These new forms should replace the previous year tax forms in the employee packet. When an employee wishes to make a change to their payroll tax withholding, the current year federal W-4 and/or state DE 4 form must be used.

### **Invalid W-4 and DE 4 Forms**

Federal W-4 and state DE 4 forms are considered to be invalid if the form has been altered in any way. This can include a strike-through or a cross-out of any of the language or if the employee made corrections to the form. Upon receiving an invalid form, the district should contact the employee and request a new W-4 and/or DE 4 form.

### **Federal Form W-5 (Earned Income Credit Advance Payment Certificate (EIC))**

A federal Form W-5 must have been completed each calendar year for it to be considered valid. In the testing results included below, one employee had tax credit calculated on an expired 2008 Form W-5. However, this tax credit ended December 31, 2010. The EIC must now be claimed on an employee's annual personal income tax returns rather than through payroll. The district

should confirm that its payroll system does not continue to calculate EIC on any employee check beginning in 2011. The district should also notify employees who may be using this option to let them know it is no longer available through a payroll deduction and that new W-4 and DE 4 forms must be submitted immediately.

The federal W-4 and state DE 4 forms must be retained for at least four years from their last effective dates. However, the district should keep the old forms as part of the employee's permanent payroll file even after they have been replaced with a new form to help protect against any action or wage lawsuits.

A random sampling of 52 employees were selected for testing and included 13 certificated and 13 classified employees from each district. Employee tax withholding certificates were requested from district staff, and the following documents were provided to FCMAT: federal Forms W-4 and W-5 and state Form DE 4. The documents were compared with the September 30, 2010 payroll register to determine whether the federal and state withholding allowances claimed by employees agreed with the withholding allowances entered and paid on the payroll system.

FCMAT's testing revealed the following:

- Elementary Classified (CLAS02) – 13 records tested
  - 6 pay records do not have a W-4 or DE 4 form on file to support the payroll withholding processed
  - 1 pay record calculated a payroll tax credit on an expired 2008 Form W-5
  - 1 pay record did not have a DE 4 form on file to support a different additional withholding amount than was authorized on the W-4 form
  - 1 W-4 form included an illegible correction written over the original number of allowances
  - 1 outdated W-4 form was used
- Elementary Certificated (CERT01) – 13 records tested
  - 1 pay record did not have a W-4 or DE 4 form on file to support the payroll withholding processed
  - 2 pay records did not match the W-4 form
  - 3 outdated W-4 forms were used
- Secondary Classified (CLAS02) – 13 records tested
  - 2 pay records did not have W-4 or DE 4 forms on file to support the payroll withholding processed
  - 1 pay record did not match the W-4 form
  - 3 outdated W-4 forms were used

- Secondary Certificated (CERT01) – 13 records tested
  - 2 pay records did not match the W-4 form
  - 1 W-4 form did not include the employee's Social Security number
  - 2 W-4 forms had strike-throughs
  - 1 W-4 form did not identify the marital status
  - 1 outdated W-4 form was used
  - 1 outdated DE 4 form was used

## Recommendations

*The district should:*

1. Include Form DE 4 in the information provided to new employees and make the forms available in the human resources and payroll departments.
2. Consider adding links to the IRS and EDD on the district website so employees can access and print tax forms as needed.
3. Ensure that current W-4 and DE 4 forms are included in the information provided to new employees and that current forms are used when an employee makes a change to their payroll tax withholding.
4. Request that an employee complete and submit a new W-4 and/or DE 4 form when an invalid form is received.
5. Ensure that its payroll system does not continue to calculate EIC on any employee check beginning in 2011.
6. Notify employees who were using the EIC option that it is no longer available through a payroll deduction and that new W-4 and DE 4 forms must be submitted.
7. Keep the W-4 and DE 4 forms for at least four years from their last effective date and consider retaining them indefinitely in the employee's permanent payroll file.
8. Ensure that all employee payroll files include W-4 and DE 4 forms that support the withholding amounts included in the payroll system.

## Employee Deductions and Vendor Payments

The processing of all voluntary and involuntary payroll deductions has been assigned to the payroll coordinator, a management position. Interviews indicated that the payroll technicians do not believe that the processing of payroll deductions is included in their job description. The following is included in the payroll coordinator job description:

Process employee and/or District-paid insurance for medical, dental, vision, life insurance, disability plans, S125 Flexibility plans, and all other voluntary and involuntary deductions.

The function of processing payroll deductions is typically assigned to a payroll technician. This is an integral part of the day-to-day payroll process and should not be the function of a management employee nor should any one employee be assigned responsibility for all voluntary and involuntary deductions in a district the size of Santa Barbara. Technicians should be trained to perform this function and proper oversight should be provided by the payroll coordinator.

The district changed medical insurance providers in the 2010-11 fiscal year; this change was to be effective with the September 30, 2010 payroll and required significant changes to the payroll system. The payroll coordinator enlisted the help of a new employee to make the changes. However, no one was assigned to verify the changes prior to processing the final payroll. After employees received their paychecks, a coding error was discovered that resulted in over 180 employees being overcharged for their medical benefits. This required an extraordinary amount of extra work to review each employee's net pay, correct the errors and return the money using manual warrants.

If each payroll technician were assigned responsibility for the deductions related to the employees they pay, the workload would be more evenly distributed and more oversight could be provided, resulting in a reduced chance of errors. Making deductions the responsibility of more than one employee would also provide the cross-training that is necessary for proper internal controls.

FCMAT compared the voluntary deduction amounts taken for the employees' paychecks to the amounts of the respective vendor warrants. However, in completing the testing of this data, inconsistencies were discovered in the information that was downloaded from the payroll system to Excel; therefore, it was necessary to use reports generated in the Monarch system to complete the testing process. For example, the Excel files created from the data download did not recognize negative numbers; therefore, if a negative deduction was made to adjust a prior month's error, the amount was added to rather than subtracted from the cumulative total deductions in the Excel file. Data inconsistencies also included instances where the payee name listed on the voluntary deductions warrant register was not the payee on the warrant. For example, if multiple vendors were listed on one check, as is the case with the tax sheltered annuity deductions that are issued to a third party administrator, the payee reflected on the warrant register is the first vendor listed on the check stub and not the actual payee.

The reconciliation of the amount paid monthly to the third party administrator is further complicated when the administrator issues a check to the district for any employee deduction that exceeds the maximum annual amount allowed by federal regulations. The district procedure is to return the overpayment to the employee via a negative voluntary deduction on the following month's payroll. These negative deductions then reduce the amount of the system-generated warrant to the administrator in the month they are made. A manual warrant must be issued for the difference to ensure the administrator receives full payment for the current month's deductions. When the district converts to the QSS software system, this procedure should be reviewed and processes established to eliminate the need to issue manual warrants to the third party administrator.

Although some discrepancies and difficulties were encountered during the process of downloading deduction information from the payroll system to Excel for testing, no other irregularities were found in comparing the payroll deductions to the respective vendor warrants.



To complete the sample testing of payroll deductions, FCMAT created a random list of deductions withheld from employee paychecks between July and November 2010 and requested that the district provide a copy of the employee's authorization form for each deduction. Twenty-five authorization forms were requested from each district for a total sample size of 50 deductions. Five records were requested from each district for the following deduction types: garnishment (GARN); health and welfare (HW); miscellaneous (MISC); manual warrant replacement or salary repayment (SCAREV), and tax sheltered annuities (TSAEE). The following discrepancies were found:

- The payroll deduction amount differed from the authorization form in two instances involving health insurance deductions: one in the elementary and one in the secondary school district. The differences were small, less than \$2 a month. The district's payroll department was notified of the discrepancies and indicated that the amount included on the enrollment form at the time of sign-up may have changed slightly compared to the actual employee cost. There were no forms provided that included the corrected amount of the deduction.
- The secondary district had one instance in which the authorization form provided to FCMAT for a Teachers Federal Credit Union deduction appeared to be a payroll distribution report from the credit union rather than an authorization form signed by the employee. When FCMAT requested a signed authorization form, the payroll staff indicated that the form was not in the employee's file and may have been misfiled.
- Each district was asked to supply authorization forms for union dues deductions for one classified and one certificated employee bargaining unit member. District staff indicated there were no authorization forms because the employees are required to pay union dues and the payroll system automatically calculates the deduction amounts. However, the collective bargaining agreements contain conflicting language regarding the need for an employee authorization form for deduction of union dues. The agreement between the Santa Barbara School Districts and the Santa Barbara Teachers Association CTA/NEA dated 2008-2011 states the following in Article III:

1.5 The District will deduct from the pay of Association members and pay to the Association the normal and regular monthly membership dues as voluntarily authorized in writing by the employee on the District form subject to the following conditions:

1.5.1 Such deduction shall be made only upon submission on a District approved form of a duly executed and revocable authorization by the employee.

1.5.5 District shall implement agency fee pursuant to SB 1960...

The agreement between the Santa Barbara School Districts and CSEA dated 2008-2011 states the following in Article III:

6.3 The District and CSEA agree to implement the provisions of Government Code Section 3546 as set out in this Agreement effective the first day following ratification of this agreement.

6.7 The District shall deduct, in accordance with the CSEA dues and service fee schedule, dues, service fees, or payments to charity in lieu of service fees from the wages of all bargaining unit members who have submitted payroll deduction

authorization forms to the District. Such authorization shall remain in effect until expressly revoked in writing by the bargaining unit member.

6.12 The District shall deduct and pay to CSEA service fees for each bargaining unit member who is obligated to pay such fees, pursuant to this Agreement, unless CSEA notifies the District that the bargaining unit member is paying such fees directly to CSEA. A payroll deduction authorization form shall not be required for such deductions.

- In response to FCMAT's request for authorization forms for tax sheltered annuity (TSA) deductions, district staff indicated that the initiation of and changes to TSA agreements are handled through the district's third party administrator (Envoy). Changes are keyed in to the payroll system from a list supplied to the district by Envoy. The list is then filed with the monthly payroll data. Nothing is filed in the individual employee's file noting or authorizing the change. This makes tracking any changes to an employee's TSA a cumbersome task. If verification of a change is required at a later date, the exact month that the change occurred must be known for payroll staff to be able to locate the list in the corresponding payroll file. The district should file a copy of the list in each employee's individual payroll file to more easily track and verify the changes made to TSA deductions. The district should also request that Envoy provide scanned copies of all signed employee salary reduction agreements at the end of each year via electronic media for the district's payroll records.

## Recommendations

*The district should:*

1. Review and rewrite the payroll coordinator job description to ensure that the position oversees rather than processes voluntary and involuntary deductions, including health and welfare benefits.
2. Assign all routine payroll duties to the payroll department support staff and ensure that the payroll coordinator oversees the staff and their work product.
3. Review the procedure for processing negative deductions for tax sheltered annuities paid to a third party administrator when converting to QSS and establish procedures to eliminate the need for processing manual warrants.
4. Clarify the conflicting language contained in its collective bargaining agreements to determine when and if signed authorization forms are required for deduction of union dues.
5. File a copy of the list of TSA changes provided by Envoy in each employee's individual payroll file to more easily track and verify changes.
6. Ensure that Envoy supplies the district annually with scanned copies of all signed employee salary reduction agreements.
7. Ensure that employee payroll files include a signed authorization form, as applicable, for each voluntary deduction reflected in the payroll system.

# Appendices

## Appendix A - Study Agreement



# FCMAT

FISCAL CRISIS & MANAGEMENT  
ASSISTANCE TEAM

**CSIS** California School Information Services

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## FISCAL CRISIS & MANAGEMENT ASSISTANCE TEAM STUDY AGREEMENT

October 21, 2010

The FISCAL CRISIS AND MANAGEMENT ASSISTANCE TEAM (FCMAT), hereinafter referred to as the Team, and the Santa Barbara School Districts, hereinafter referred to as the District, mutually agree as follows:

### 1. BASIS OF AGREEMENT

The Team provides a variety of services to school districts and county offices of education upon request. The District has requested that the Team provide for the assignment of professionals to study specific aspects of the Santa Barbara School Districts operations. These professionals may include staff of the Team, County Offices of Education, the California State Department of Education, school districts, or private contractors. All work shall be performed in accordance with the terms and conditions of this Agreement.

In keeping with the provisions of AB1200, the County Superintendent will be notified of this agreement between the District and FCMAT and will receive a copy of the final report. The final report will be published on the FCMAT website.

### 2. SCOPE OF THE WORK

#### A. Scope and Objectives of the Study

The scope and objectives of this study are to:

The primary focus of this review is to provide the Payroll Department with reasonable assurance based on the testing performed that adequate management controls are in place. Management controls include the processes for planning, organizing, directing, and controlling program operations, including systems for measuring, reporting, and monitoring performance. The payroll process is generally a high risk audit area in which potential fraud issues such as fictitious employees or unauthorized misappropriation of assets may be detected. Specific audit objectives will include evaluating the policies, procedures, and internal controls related to the Payroll Department.

The FCMAT Team will sample test data from the prior six months and include a review of earnings, extra earnings, deferred net pay (10 month employees) and benefits. Testing associated with this review will be based upon sample selection and will not include the testing of the complete payroll records. Sample testing and review results are intended to provide reasonable, but not absolute assurance as to the accuracy of timekeeping and payroll data. The objective of the report will be to provide findings regarding the efficiency and accuracy of the payroll department data and make recommendations for the following:

- 1) Provide reasonable assurance that payroll transactions are entered by properly authorized personnel and that the transactions are accurately summarized for salary and benefit compensation. The FCMAT Team will obtain the data and information necessary to perform testing of various payroll records. This component will be to evaluate the effectiveness and efficiency of departmental payroll processing operations which include new hires, ghost employees, terminations, salary adjustments, overtime/comp time and leave time.
- 2) Provide reasonable assurance that access to the timekeeping and payroll operating system (CECC) is properly secured from unauthorized changes and that the proper internal control systems are in place for data transfers between the payroll and human resources department.
- 3) Evaluate the division of labor and segregation of duties between classified and management employees in the payroll department
- 4) Review the payroll department work flow and staffing;
- 5) Provide recommendations regarding the feasibility of implementing a supplemental payroll for substitutes and hourly employees;
- 6) Determine the feasibility of eliminating the certificated split payroll in December and January;
- 7) Review the records processing procedures and file management protocol;
- 8) Evaluate desk manuals and procedures for each departmental employee;
- 9) Review the integration and use of position control with the payroll and personnel departments;

- 10) Verify that the District is in compliance with the State Teachers Retirement System of California (STRS) regarding employee/employer contributions and reporting.
- 11) Verify that the District is in compliance with the California Public Employees Retirement System (CalPERS) regarding employee/employer payments and reporting.
- 12) Review the unemployment compensation process to ensure that the District is in compliance with the payment and reporting process for the California State Office of Unemployment Compensation.
- 13) Ensure that the federal and state withholding allowances claimed by District employees agreed with the withholding allowances entered in the payroll system as of 09/30/2010.
- 14) Review procedures related to deductions and payments to vendors, including but not limited to insurance carriers.

**B. Services and Products to be Provided**

1. Orientation Meeting - The Team will conduct an orientation session at the School District to brief District management and supervisory personnel on the procedures of the Team and on the purpose and schedule of the study.
2. On-site Review - The Team will conduct an on-site review at the District office and at school sites if necessary.
3. Exit Report - The Team will hold an exit meeting at the conclusion of the on-site review to inform the District of significant findings and recommendations to that point.
4. Exit Letter - The Team will issue an exit letter approximately 10 days after the exit meeting detailing significant findings and recommendations to date and memorializing the topics discussed in the exit meeting.
5. Draft Reports - Sufficient copies of a preliminary draft report will be delivered to the District administration for review and comment.
6. Final Report - Sufficient copies of the final study report will be delivered to the District administration following completion of the review.

7. Follow-Up Support – Six months after the completion of the study, FCMAT will return to the District, if requested, to confirm the District’s progress in implementing the recommendations included in the report, at no cost. Status of the recommendations will be documented to the District in a FCMAT Management Letter.

### 3. PROJECT PERSONNEL

The study team will be supervised by Anthony L. Bridges, CFE, Deputy Executive Officer, Fiscal Crisis and Management Assistance Team, Kern County Superintendent of Schools Office. The study team may also include:

- |                            |   |
|----------------------------|---|
| <i>A. Diane Branham</i>    | <i>FCMAT Fiscal Intervention Specialist</i> |
| <i>B. Lynn Kamph</i>       | <i>FCMAT Consultant</i>                     |
| <i>C. Margaret Rosales</i> | <i>FCMAT Consultant</i>                     |
| <i>D. To Be Determined</i> | <i>FCMAT Consultant</i>                     |

Other equally qualified consultants will be substituted in the event one of the above noted individuals is unable to participate in the study.

### 4. PROJECT COSTS

The cost for studies requested pursuant to E.C. 42127.8(d)(1) shall be:

- A. \$500.00 per day for each Team Member while on site, conducting fieldwork at other locations, preparing and presenting reports, or participating in meetings.
- B. All out-of-pocket expenses, including travel, meals, lodging, etc. The District will be invoiced at actual costs, with 50% of the estimated cost due following the completion of the on-site review and the remaining amount due upon acceptance of the final report by the District.

**Based on the elements noted in section 2 A, the total cost of the study is estimated at \$16,000.**

- C. Any change to the scope will affect the estimate of total cost.

Payments for FCMAT services are payable to Kern County Superintendent of Schools - Administrative Agent.



## 5. RESPONSIBILITIES OF THE DISTRICT

- A. The District will provide office and conference room space while on-site reviews are in progress.
- B. The District will provide the following (if requested):
- 1) A map of the local area
  - 2) Existing policies, regulations and prior reports addressing the study request
  - 3) Current or proposed organizational charts
  - 4) Current and two (2) prior years' audit reports
  - 5) Any documents requested on a supplemental listing
  - 6) Any documents requested on the supplemental listing should be provided to FCMAT in electronic format when possible.
  - 7) Documents that are only available in hard copy should be scanned by the district and sent to FCMAT in an electronic format.
  - 8) All documents should be provided in advance of field work and any delay in the receipt of the requested documentation may affect the start date of the project.
- C. The District Administration will review a preliminary draft copy of the study. Any comments regarding the accuracy of the data presented in the report or the practicability of the recommendations will be reviewed with the Team prior to completion of the final report.

Pursuant to EC 45125.1(c), representatives of FCMAT will have limited contact with pupils. The District shall take appropriate steps to comply with EC 45125.1(c).

## 6. PROJECT SCHEDULE

The following schedule outlines the planned completion dates for key study milestones:

<b><i>Orientation:</i></b>	<b><i>to be determined</i></b>
<b><i>Staff Interviews:</i></b>	<b><i>to be determined</i></b>
<b><i>Exit Interviews:</i></b>	<b><i>to be determined</i></b>
<b><i>Preliminary Report Submitted:</i></b>	<b><i>to be determined</i></b>
<b><i>Final Report Submitted:</i></b>	<b><i>to be determined</i></b>
<b><i>Board Presentation:</i></b>	<b><i>to be determined</i></b>
<b><i>Follow-Up Support:</i></b>	<b><i>If requested</i></b>

7. CONTACT PERSON

Name of contact person: Eric D. Smith, Deputy Superintendent

Telephone: (805) 963-4338 x289 FAX: (805) 963-1916

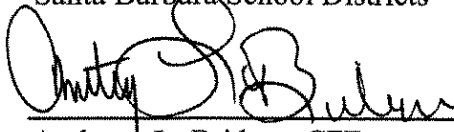
E-Mail: esmith@sbsdk12.org



Dr. J. Brian Sarvis, Superintendent  
Santa Barbara School Districts

10/27/10

Date



Anthony L. Bridges, CFE  
Deputy Executive Officer  
Fiscal Crisis and Management Assistance Team

October 21, 2010

Date

**Approved by the**  
**SB Board of Education on**  
10/26/10

**Purchase Order Number:**  
Sec req. # 6279  
Elem req # 1166