



**Seattle Public Schools  
The Office of Internal Audit**

**Internal Audit Report  
Stipends**

**September 1, 2018 through January 31, 2020**

Issue Date: June 2, 2020



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## Internal Audit Report Stipends September 1, 2018 – January 31, 2020

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### Executive Summary

#### Background

Stipends for certificated staff, also known as supplemental assignments, are governed by Board Policy 5050, in conformity with the Revised Code of Washington (RCW) and the Certificated Non-Supervisory Employees and Principals' Association of Seattle Schools (PASS) collective bargaining agreements (CBA). These employees may receive a stipend for various reasons such as curricular activities, extracurricular activities, leadership roles, professional certifications, incentives or other special projects. The District also pays limited stipends to classified employees for items such as professional certifications, professional development, and car allowances. The scope of this audit covers stipends paid to certificated staff, such as principals, teachers, substitutes, counselors, occupational therapists, and psychologists.

During the 2018-19 school year, the District had approximately \$10.4 million in stipend expenditures, with a total of 5,803 stipends assigned to 2,837 employees. Ninety-three percent (93%) of these expenditures were paid through the General Fund. Ninety-four percent (94%) of all stipends were assigned to Certificated Non-Supervisory staff and three percent (3%) to PASS staff.

Stipends are accounted for differently depending on the characteristics of the stipend: Job code, non-job code, and athletics stipends.

- Job code stipends are tied to certain positions within the District. When an employee is assigned to the job, the employee automatically receives the stipend. This primarily includes Career Ladder positions, such as Teacher Leadership Cadre, and SPED Program Specialist. Career Ladder positions are intended to recognize the importance of teacher leadership in building instructional capacity and promoting teacher professional growth along a continuum of practice. Other job-code stipends are curricular-type stipends such as House Administrator or Dean of Students. The scope of this audit excludes the initial hiring process of these positions. The Office of Internal Audit previously issued an audit report on Hiring Practices on December 5, 2017.
- Non-job code stipends are primarily coordinated by the operations function of the Human Resources Department (HR). These include professional certifications, curricular and extra-curricular discretionary type stipends, and other individual-based stipends such as the National Board Certified Teacher Bonus, Building Leadership Team, and Early Resignation Incentive. Employees only receive non-job tied stipends once they are assigned to the stipend.
- The athletic stipends are primarily coordinated through the District's Athletics Department for compensation paid to certificated staff who also serve as a District coach. The scope of this audit excludes athletics stipends. Athletic stipends totaled approximately \$407,000 for 2018-2019, which is less than 4% of all stipend expenditures.



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The decentralized nature of the District results in a situation where many key internal controls over stipends are performed at individual schools and other central-based departments. This audit will highlight those areas where there may not be clear guidance on procedures expected to be performed and identify situations where there may not be adequate performance of these key internal controls.

This audit was requested by the Payroll Department due to concerns about the adequacy of the centralized monitoring procedures related to stipend payments.

### **Roles and Responsibilities**

This audit was completed as part of the Annual Risk Assessment and Audit Plan approved by the Audit and Finance Committee on September 4, 2018. District Management has the primary responsibility to establish, implement, and monitor internal controls. Internal Audit's function is to assess and test the internal controls to provide reasonable assurance that the controls are adequate and operating effectively. We conducted the audit using due professional care, and we believe that the evidence obtained provides a reasonable basis for our findings and conclusions.

### **Audit Objectives**

To determine if the District has adequate internal controls to ensure that stipends are:

- Properly authorized
- Accurately calculated
- Terminated when the stipend expires

### **Scope of the Audit**

September 1, 2018 through January 31, 2020

### **Audit Approach and Methodology**

To achieve the audit objectives, we performed the following procedures:

- Planned the audit in cooperation with central administration staff from Accounting, Human Resources, Payroll, and Special Education Departments to ensure that we had a strong understanding of the District's compliance requirements and operating procedures.
- Reviewed District policies, administrative procedures, and written guidance provided by departments in central administration.
- Reviewed collective bargaining agreements and RCWs for compliance requirements.



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- Interviewed school and central administration staff knowledgeable of the objective areas.
- Analyzed available data to assess risks and corroborate the information obtained.
- Examined accounting records and tested supporting documentation.

### **Racial Equity Considerations**

This audit included completion of the Racial Equity Advancement Internal Audit Consideration Tool. This Tool is intended to help align Internal Audit with the District's Strategic Plan and Mission by increasing Internal Audit's awareness of potential racial equity issues impacting the area being audited. This audit identified two potential areas of inequity:

- Some schools may have more funds available for stipend assignments as a result of the support they receive from their support organizations.
- Stipends may not be granted as frequently to employees of color.

This audit did not include any additional objectives or procedures related to these potential racial inequities. We were informed that the classification and compensation team was already conducting an analysis in this area, and we did not want to use Internal Audit resources to duplicate their work.

### **Conclusion**

Based on the procedures performed, the District appears to have adequate internal controls in the objective areas, except for items noted in this report. This report includes recommendations that are intended to improve the overall accountability and transparency of the objective areas.

We extend our appreciation to the school and central administration staff for their assistance and cooperation during the audit.

*Andrew Medina*

Andrew Medina, CPA, CFE  
Director, Office of Internal Audit



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### Findings and Recommendations

#### 1) Internal Controls over Stipends

The internal control structure over stipends is a manual-intensive process and is not adequately designed to prevent and detect all errors or inaccuracies. The current process leaves the District vulnerable to the risk of improper payments. We found the following types of errors that evidence a weakness in the internal controls related to stipends:

- Stipend amounts paid to employees not agreeing to the Collective Bargaining Agreement approved amounts.
- Calculating and distributing incorrect stipend amounts when stipends are split between multiple staff.
- Issuing a one-time stipend payment for the full stipend amount at the beginning of a project, rather than agreed upon monthly installments.
- Incorrectly issuing a stipend payment to an employee that was not eligible for it, and not assigning the stipend for the correct employee.
- Mid-year changes to stipend assignments resulted in stipend calculation errors and stipend payments to incorrect employees.

The results of our testing showed that 22% of the stipends tested contained various calculation and input errors.

The process for initiating stipends begins with the school or central-based department preparing the stipend request form, which is an Excel spreadsheet detailing which employee(s), stipend, and amounts will be issued to staff. These forms are sent as an email attachment to the Human Resources Department (HR). HR verifies that stipend requests are received from authorized individuals before processing the stipend, but they rely on the school leaders and department managers to ensure the accuracy of the stipend requests. HR enters the information in the District's accounting system, SAP, so that the Payroll Department can process the stipend payments, but they only perform limited monitoring to detect and prevent the types of errors noted above.

#### Recommendation

We recommend that the District strengthen its internal controls over the stipends process. Specifically, we recommend that the District:

- Re-evaluate the current internal control structure of the stipend process to identify where additional monitoring can be performed to reduce the risk of improper stipend payments.



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This should include evaluating if the Human Resources Department can verify stipend accuracy prior to processing the stipends.

- Consider the costs and benefits of implementing automated controls that may automatically detect and prevent improper stipend payments.

We also recommend that the District review the details of the errors noted during the audit to determine if any necessary adjustments to employee compensation are required.



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## **2) Lack of Written Guidance**

The District relies on schools and central-based departments to understand the stipend information included in the Collective Bargaining Agreements (CBAs); however, the CBAs do not always contain adequate information on how to operationalize the stipend requirements. In addition, the District provides limited written guidance for staff on how to properly administer stipends. This may lead to misinterpretations of the CBAs, inconsistencies in the District's stipends procedures, inadequate documentation supporting stipend decisions, and improper stipend payments.

We noted errors and inconsistencies during the audit that suggest additional written guidance is necessary to properly administer stipends. The following situations highlight specific areas where additional written guidance is necessary:

- The Certificated Non-Supervisory Employees CBA states that employees are limited to receiving two stipends, unless no other qualified employees are willing to except the stipend. We found that it is common for staff to have two or more stipends; however, there is limited guidance on how to support and document these situations. We noted that 35% of the employees tested had more than two stipends without adequate documentation to support why the stipends were not awarded to a different employee.
- The District's job descriptions and Certificated Non-Supervisory Employees CBA states that certain stipends cannot be received concurrently with other stipends types. For example, we noted employees with both the Teacher Leadership Cadre and Department Head stipends, which is not allowed. In addition, we noted employees that have a second stipend in addition to an Activity Coordinator, House Administrator, and Head Counselor stipend. These stipends are not allowed to have any additional supplemental assignments beyond the one they receive. We noted that 25% of the employees tested held more than one stipend even though one of their stipends prohibited concurrent stipend assignments.
- Some stipends in the Certificated Non-Supervisory Employees CBA appear to be intended for a single individual but were allowed to be split between multiple staff. For example, we noted one Head Counselor split between five individuals, and two Educator Leadership Cadre split between six individuals.
- Certain stipends are identified in the Certificated Non-Supervisory Employees CBA as having a limit to the number of years they can be assigned to the same person. The term limits identified in the CBAs range from two to five years before the stipend must be re-evaluated and made available to other eligible staff. We noted instances of stipends exceeding the limit. For example, SPED program specialist positions are limited to four-year terms, however, individuals have been in that role longer than four years without evidence of the stipend being opened to other eligible staff. We found that 20% of the stipends tested contained a term limit but were not re-advertised or re-applied for once the term limit expired.



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- The District has an “Over 1.0 FTE” stipend that is not specifically referenced in the CBAs, nor does it have a job description or other written guidance. We were informed the stipend is used to compensate certificated instructional staff who give up their planning period to teach additional classes. This is an allowable use of a stipend; however, we noted it is also used in situations unrelated to a teacher’s prep time or the teaching of additional classes. Additional written guidance is necessary to clearly identify how this stipend can be used to ensure it is not being used to provide unauthorized supplemental compensation.

### **Recommendation**

We recommend that the District create and distribute written guidance to supplement the information in the CBAs to ensure that stipends are clearly understood and properly administered. The written guidance should be easily accessible by all employees.

The District should provide additional guidance to address the following:

- Details regarding the number of stipends that can be assigned to a single employee, including specifics on when exceptions to the limit are permitted and how they should be supported and documented.
- Details on prohibited concurrent stipend assignments and whether any exceptions are permitted.
- Details on when and how stipends may be split between multiple staff and the number of staff per stipend.
- Details on how stipends containing term limits should be reevaluated and what supporting documentation is required when an employee is authorized to exceed a term limit.
- Details on the appropriate use of the “Over 1.0 FTE” stipend.
- Instructions on how to calculate mid-year changes to stipend assignments.
- Procedures for authorizing a stipend that is not included in the CBAs.
- Details on the supporting documentation that must be created to support stipend assignments and who is responsible for maintaining such documentation.
- Regular updates to the written guidance based on frequent questions received from staff and common errors identified through central monitoring procedures.

We also recommend that the District consider changes to the Certificated Non-Supervisory Employees CBA language during the next bargaining session to help ensure that stipends are clearly understood.





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### 3) Inactive Stipends

Over the years, the District has developed a growing list of stipends and job descriptions that may no longer be relevant to the District's current circumstances.

We identified 164 stipends that are available to be assigned to employees within the District's accounting system, SAP. However, the following characteristics for thirty-one (31) of these stipends indicate they are not used in practice or may no longer be valid:

- Stipends available in SAP that have no language referring to them in the Certificated Non-Supervisory Employees and Principals' Association of Seattle Schools (PASS) collective bargaining agreements (CBA), along with there being no recent expenditures for the past five years.
- Stipends that are included in the Certificated Non-Supervisory Employees and PASS CBA, but do not have any recent expenditures for the past two to five years.
- Stipends types that the District previously ended in practice, but language referring to the stipends is still included in the Certificated Non-Supervisory Employees CBA.

Advertising invalid stipends in the CBA, and making the stipend wage types available in SAP, increases the risk of assigning employees an unauthorized or incorrect stipend.

### Recommendation

We recommend that the District establish and maintain internal controls to ensure that only active and valid stipends are made available to staff. Specifically, the District should:

- Evaluate each stipend to gain an understanding of what it is intended to accomplish and determine whether it is still appropriate or if it should be made inactive.
- Restrict expired and unnecessary stipends within SAP to prevent them from being used. This will make the stipends unavailable to be assigned to employees. We do not recommend completely deleting the stipends from SAP, as it may adversely affect payroll and retroactive accounting.
- Work with labor partners to remove references to invalid stipends in the CBAs, and to add any valid stipends that may currently be missing from the CBAs.
- Update any District materials, such as job descriptions, that refer to invalid stipends.



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**Management Response**

*HR Management has reviewed the findings and recommendations of the audit. We concur with the spirit and intent of the findings and recommendations and are preparing a detailed action plan that will be completed by July 3, 2020.*