



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

**Internal Audit Report
Substitute Reimbursement Audit**

July 11, 2022 - December 9, 2022

Issue Date: June 6, 2023



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Executive Summary

Background

The Seattle Education Association (SEA) Collective Bargaining Agreements (CBAs) covering Certificated Non-Supervisory, Seattle Association of Educational Office Personnel (SAEOP), and Paraprofessional district employees include provisions for reimbursement to schools in specified instances where a substitute is requested for a job, however the job fails to fill due to substitute unavailability. When the District is not able to provide a substitute to fill an absence for employees such as teachers, office staff, and paraprofessionals, another employee at the same building may take on the additional responsibility to cover the absent employees' assignment. In these situations, the impacted school is reimbursed, and the funds may be used to compensate staff for coverage of the unfilled position.

Each school's bargaining unit (certificated non-supervisory, SAEOP, and paraprofessional) creates a reimbursement agreement that guides the use of Substitute Unavailability Funds received for their unit's SEA-represented employees substituting for other SEA-represented employees. The policy consists of guidelines that are administered by building leadership, building timekeepers, the substitute office, and the Payroll Services Department. The SEA bargaining agreements were renewed and approved for a three-year term beginning with the 2022-2023 school year, which clarified specifications and procedures for substitute reimbursements.

During the 2021-2022 school year, the District had \$3.1 million in substitute reimbursement expenditures assigned to 3,490 employees. For the 2020-2021 and 2019-2020 school years, substitute reimbursement compensation was \$394,553 and \$529,356 respectively. Due to the significant increase in volume and compensation of substitute reimbursement claims for the 2021-2022 school year (primarily attributed to absences related to the Covid-19 pandemic and the statewide substitute shortage) along with manual calculation errors detected by payroll operations, the Assistant Superintendent for Business and Finance requested that Internal Audit examine claims, review selected payroll files, and evaluate the current internal controls of substitute reimbursement processing.

The District utilizes SAP financial software to manage payroll functions, and utilizes a stand-alone software system, Frontline Education Absence Management (Frontline), to manage substitute requests, substitute placement, and absence management service. Substitute reimbursement request forms are prepared by the impacted employee, approved and signed by building management, processed by building timekeepers, and remitted to Payroll. The substitute office coordinates substitute coverage and provides guidance to staff who may have questions regarding eligibility, process, and procedures. Absence records collected from Frontline are reviewed by payroll operations staff to determine the validity and accuracy of compensation amounts and additionally utilizes these records as a monitoring system to track unreported leave of District staff. Since staff absences are recorded in SAP on an exception only basis, Frontline records are employed as a detective control of discovering unreported absences. This comparative analysis is an integral component of monthly payroll processing and intended to reduce potential overpayments and safeguard District assets.



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In 2018, Internal Audit reported observations and findings regarding substitute rebates and reimbursements as a part of the Central Administration Support of Schools audit. Concerns surrounding timely recording of staff absences in the Aesop (now Frontline) system were identified along with significant latency in the approvals of requests for reimbursements. Internal Audit noted occurrences where the District reimbursed schools even though the substitute system was not provided with adequate time to try to find an available substitute. It was also found that the District lacked clear guidance on when a school must request a substitute in order to receive reimbursement. It was recommended that central administration monitor substitute reimbursements to ensure that it is only reimbursing requests that meet the established requirements. In addition, it was recommended that the District clarify how often each school must determine how to utilize the funds that are generated when they are impacted by substitute unavailability, and how that determination should be documented.

In response to the 2018 audit, District management developed additional time keeping resource guides and enhanced internal documentation of process and procedures. While the 2018 recommendations have been implemented, the concerns regarding completeness and accuracy of substitute reimbursement claims remain. In the interim, individual schools have been audited by the Internal Audit Department and related findings involving substitute reimbursements have been reported. Inaccuracies inherent to this manual process continue to be uncovered and now have a larger monetary impact on the District.

Roles and Responsibilities

This audit was initiated at the request of the District's Assistant Superintendent of Business and Finance. The Audit Committee was notified of this addition to the Internal Audit Work Plan at its September 13, 2022, meeting. District Management has the primary responsibility to establish accurate processes, monitor internal controls, and implement operational improvements. Internal Audit's function is to assess current operations, provide recommendations for optimization, and offer reasonable assurance on the adequacy and effectiveness of internal controls.

Objectives

The following objectives were developed for this engagement:

- Determine whether substitute reimbursements submissions flagged for review by District management for the 2021-2022 school year were properly authorized, contained the correct dollar amount, and supported by required documentation.
- Identify internal controls and assess the adequacy of the key controls identified.
- Determine if opportunities exist for a monthly data analytic audit process that can be utilized by Payroll to analyze substitute reimbursements effectively and expediently.

Scope of the Engagement

This audit was conducted from July 11, 2022, to December 9, 2022, and examined a sample of substitute reimbursements that occurred in the 2021-2022 school year.



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Approach and Methodology

This audit was conducted in conformance with the International Standards for the Professional Practice of Internal Auditing. Internal Audit is an independent appraisal activity that is purposed with evaluating the efficiency and effectiveness of operations. The Office of Internal Audit is designed to add value and improve the District's operations by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of internal controls and governance of processes. Recommendations included in this audit engagement are designed to improve operations and serve as the basis for informed discussions. To achieve the audit objectives, the following procedures were performed:

- Planned the engagement in cooperation with Business and Finance Department leadership, Payroll management, and Human Resources Strategy and Operations.
- Reviewed collective bargaining agreements that serve as key criteria for substitute reimbursements. Transactions were tested in accordance with the CBA that was in effect at the time of the transaction. (Certificated, SAEOP, and Paraprofessional).
- Reviewed District policies, administrative procedures, past audits, and written guidance provided by departments in central administration.
- Verified that all recommendations from a 2018 Internal Audit related to substitute reimbursements were implemented.
- Interviewed Payroll staff, examined substitute reimbursement compensation documentation, substantiated compensation amounts, and analyzed overpayment recovery.
- Ensured that all overpayments and suspected losses were properly reported to the Washington State Auditor's Office.
- Examined payroll records and tested supporting documentation for each substitute reimbursement flagged by District management.
- Performed additional testing of all substitute reimbursement transactions at a secondary school with the highest volume of inaccurate submissions identified by District management, and individual employee payroll files that received over \$10,000 in substitute reimbursement compensation for the 2021-2022 school year.
- Interviewed Payroll staff to ascertain elements of the current operational processes and procedures that possess the highest risk of inaccurate compensatory recording.

Racial Equity Considerations

This engagement included completion of the Internal Audit Racial Equity Advancement Tool. This activity is intended to help align Internal Audit with the District's Strategic Plan and racial equity goals by increasing Internal Audit's awareness of potential racial equity issues impacting the area being reviewed. Each building in the District is intended to have an emergency substitute process in place that equitably distributes the responsibility for covering assignments when a substitute is



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not available. In developing this process, the Racial Equity lens must be used with the goal of minimizing impact to students furthest from educational justice. This engagement did not identify areas of racial inequities within the operational and administrative aspects of substitute rebates and reimbursements.

Conclusion

Based on the audit procedures performed we determined that the substitute reimbursements flagged for review by District management were appropriately corrected and evidenced with proper supporting documentation. All overpayments identified during the audit were corrected and are in process of recoupment. This audit did not attempt to quantify the total amount of overpayments for the District, but the audit does reveal that improvements to the internal controls over the substitute reimbursement process are necessary to prevent future overpayments. This report includes recommendations that are intended to improve the accuracy and accountability of the objective areas.

The Payroll Services Department has made significant enhancements to operational controls which were developed during the initiation of this review and implemented in the current school year. Payroll has increased oversight and monitoring, and they are leveraging available District resources to ensure that miscalculations are discovered prior to payouts. Increased support and District resources dedicated to internal controls related to integrated technology solutions, in tandem with an incorporation of data analytic software will improve expediency, strengthen internal controls, and optimize payroll operations.

We extend our appreciation to the Payroll Services Department and HR Strategy & Operations leadership for their assistance and cooperation during this audit engagement.

Andrew Medina

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Director, Office of Internal Audit



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Findings and Recommendations

1) Internal Controls Over Time Recording and Reconciliation

The Substitute Reimbursement process begins when an employee (impacted employee) takes on the additional responsibility to cover an absent employees' work assignment. This occurs only in instances when the District is unable to provide a substitute to fill the position. Once the coverage is complete, the impacted employee completes a substitute reimbursement form that is located on the District's internal website. The form contains fields for identifying the absent employee, providing the Frontline confirmation number associated with the employees' absence, and information to calculate the amount to be reimbursed. The rate of reimbursement is based on several factors, if the position is certificated, office staff, or a paraprofessional, and the length of coverage (for example, was the impacted employee covering all day or select class periods). In the 2021-2022 school year, the form was completed and printed by the impacted employee, and then reviewed, authorized, and signed by the building principal or project manager. The impacted employee remitted the original signed reimbursement form to the building timekeeper, or in some instances sent the form as an email attachment. The school timekeeper reviews for completeness, collects and compiles all of the substitute reimbursement claims for the month, enters the data on a standardized excel spreadsheet, scans the form, and submits the spreadsheet and supporting documentation via email to Payroll on a monthly basis. Verifying the accuracy of a substitute reimbursement form is a manual process that requires examining documentation from multiple sources, including SAP, Frontline, the appropriate CBA, and Outlook email correspondence.

Payroll operations has a reliance on building timekeepers, project managers, and administrators to enter, calculate, and approve substitute reimbursements to ensure that payment is processed appropriately and accurately. The decentralized nature of this process results in many key internal controls over reimbursements performed at the individual school level. Due to the manually intensive nature of this collaborative process, Payroll would receive incomplete, insufficient information in the submitted reimbursement requests. In addition to the complexity of this decentralized process, timekeepers had occurrences of not providing the documents timely; there were instances of delays of the impacted employee seeking approval from building principals or leadership and latency in submission of the reimbursement requests. As a result, Payroll denied, held and flagged reimbursement submissions that had incorrect amounts listed, incomplete Frontline confirmation numbers, latent submissions, or incomplete approvals for further investigation.

With the significant increase of substitute reimbursements in the 2021-2022 school year, only those reimbursements with incomplete information or inaccurate calculations were investigated by Payroll operations (an exception basis). Reimbursement claims should indicate that the time records for each employee have been reviewed and are accurate. Lack of oversight and review of reimbursement requests at the building level increased the risk of errors not being found, and it resulted in employee paycheck errors.

Internal Audit examined the following: 1) select employee payroll files that were flagged by Payroll for patterns of inaccurate, multiple, or questionable submissions, 2) all substitute reimbursement transactions at a secondary school with the highest volume of inaccurate submissions identified by Payroll operations, and 3) individual employee payroll files that received over \$10,000 in



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substitute reimbursement compensation for the 2021-2022 school year. We reviewed findings and recommendations from the 2018 Central Administration Support of Schools audit compared to process and procedures in place for the 2021-2022 school year. In addition, we reviewed overpayment recovery of substitute reimbursement pay warrants.

The following occurrences in the 2021-2022 school year identified a need for improved internal controls:

- Miscommunication between the Substitute Office, timekeepers, impacted employees and payroll operations staff, which led to instances of unauthorized or incorrect reimbursements. Miscommunication leads to diminished trust of both the Substitute Office and the Payroll Department.
- Insufficient validation of supporting documentation determining computational accuracy and completeness of reimbursements. In isolated instances, the lack of support (missing email correspondence regarding resolutions, missing frontline confirmation numbers, inadequate documentation of long-term coverage, and special emergent circumstances), resulted in errors which made it necessary recalculate and determine the accuracy of some payments made.
- Incorrect reimbursement calculations led to payment amounts not agreeing to CBA approved amounts and incorrect reimbursement calculations when split between multiple staff members.
- Lack of ownership related to the review and reconciliation of supporting documentation. Payroll is acting under the assumption that all documentation had been reviewed, authorized, and checked for accuracy by building timekeepers prior to sending to Payroll for payment processing.
- Formalized documentation on standard operating procedures and chain of command had not been developed.
- Segregation of duties concerns over instances when a timekeeper submits their own request for reimbursement.
- Incorrectly issuing substitute reimbursement payments to an ineligible employee for an extended period.
- Lack of standardized denial communications. Messaging regarding reasons stated for rejection of substitute reimbursement claims should be consistently applied.

Recommendations

Between the beginning of this audit and the time of the final report, significant improvements have been made by the Payroll Services Department to collaborate with the Department of Technology Services (DoTS) in the development of standardized substitute reimbursement forms. In addition, Payroll has created standardized communications, rolled out a pilot program of the new training for timekeepers, and established procedural documentation for Payroll staff. The Substitute Office has made efforts to collaborate with the Payroll Services Department on specialized reimbursement areas and HR Operations has clarified language in the CBA's that were approved for the 2022-2023 school year. With these changes, the internal controls have substantially



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improved in a short amount of time. Payroll and HR Operations have addressed details of the errors noted during the audit and have made corrective actions pertaining to the collection of overpayments. We commend the Payroll Services Department for enhancements to the detailed review process, and for proactively working with the DoTS to develop new reimbursement forms with additional controls.

Even with the significant internal control improvements implemented by Payroll, the Substitute Office, and HR Operations, we recommend the following procedures to further strengthen internal controls over the substitute reimbursement process:

- Continue efforts to enhance training and onboarding for timekeepers and expand the pilot program as a requirement of their standard job duties. A quick reference guide including training reminders regarding expectations would be helpful for timekeepers as they navigate the substitute reimbursement process.
- Develop an instructional guide for approvers (Building Leadership and Principal's) to eliminate ambiguity regarding allowable reimbursements to guide management on emergent situations while conforming to District policies and CBA's.
- Substitute Office to collaborate with the Payroll Services Department to standardize communications sent to staff. Consistent messaging will alleviate confusion and prevent potentially ineligible claims.
- Monthly status updates between the Substitute Office and Payroll operations. Also, Payroll leadership to increase communication with assigned budget analysts and Finance leadership to keep apprised of trends and expected reimbursement amounts.
- Implement a progressive communication plan for timekeepers that submit inaccurate reimbursement forms to ensure that their supervisors are informed of repeat instances.
- Develop procedures to standardize what supporting documentation is required for substitute reimbursements and overpayments, and how the supporting documentation will be organized and retained.
- Payroll to develop standard procedures for handling substitute reimbursement overpayments made to employees to assist with consistent application of error resolution.



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2) Ongoing Monitoring and Detective Data Analytics

Ongoing monitoring of all supplemental pay, including but not limited to substitute reimbursements, is a core function of payroll operations. Focusing on the identification of potential non-compliance, inefficiencies, or fraud may enable cost saving corrective measures, and will enhance the effectiveness of the limited resources that the District has.

Due to the large volume of reporting and transactions that the payroll team must review each pay period, as well as the multiple sources of documentation that must be reviewed to verify substitute reimbursements, it does not appear feasible that a member of the current team could manage to review substitute reimbursement calculations performed by the timekeepers and impacted employees and still manage their regular duties. Increased support and District resources dedicated to integrated technology, and the addition of data analytic tools, will improve expediency, operational efficiencies, detection of erroneous substitute reimbursement claims, monitoring, and risk mitigation of inaccurate payments to District employees. Performing data analytics can 1) alert to erroneous submissions 2) perform quality assurance checks for proper support and 3) document payroll activities.

Recommendations

We recommend that the district strengthen its internal controls by leveraging technology to enhance accuracy. Specifically Internal Audit recommends the following:

- Evaluate the effectiveness of current District technologies to determine if there are opportunities to enhance monitoring and develop early detection of miscalculated or inaccurate claims.
- Evaluate key technology interfacing (Frontline/SAP – and the addition of teacher's schedule/student attendance/PowerSchool) to ensure that reimbursements are not made for covering a planning period, or reimbursement for special education 1 to 1 individual support when the student is absent.
- Consider the cost benefit of implementing automated data analytic controls that can detect and prevent erroneous or improper reimbursement pay.
- Modernize the substitute reimbursement process to ensure that the various systems interface and will calculate reimbursements accurately.
- Engage with DoTS to create a monthly reconciliation system to ensure all Frontline records can be digitally downloaded and interface with SAP.
- Payroll and Human Resources to collaborate with DoTS to implement a compensation module in SAP or equivalent system to track employee's pay rates and additional pay (including substitute reimbursements) to reduce the instances of manual errors from spreadsheets used currently to provide calculations for reimbursement pay.



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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 an action plan that will be prepared by June 6, 2023.