St. Johns County
School District

Excellence
in
Public Education
Since 1869

St. Johns County School Board

**Internal Audit of
Timekeeping**

**Prepared By:
RSM McGladrey
December 14, 2009**

Table of Contents

December 14, 2009

The Audit Committee of the
St. Johns County School Board, Florida
40 Orange Street
St. Augustine, Florida 32084

Pursuant to the School Board of St. John's County ("District') approved 2009/2010 audit plan, we hereby submit our internal audit report of Timekeeping. We will be presenting this report to the Audit Committee at the next scheduled meeting.

Our report is organized in the following sections:

Executive Summary	This provides a summary of the issues related to our internal audit of Timekeeping.
Background	This provides an overview of Timekeeping.
Objectives and Approach	The internal audit objectives and focus are expanded upon in this section as well as a review of the various phases of our approach.
Issues Matrix	This section gives a description of the issues, recommended action and management's response.
Appendix - Process Map	This section includes the process map of the process "as is" and "best practices".

We would like to thank the various departments and all those involved in assisting the Internal Auditors in connection with the review of Timekeeping.

Respectfully Submitted,

INTERNAL AUDITORS

Executive Summary

Executive Summary

Tracking and paying the District's workforce is a complex and high risk function. There are numerous different categories of employees in departments such as transportation and food service, as well as different types including aides, substitutes, teachers, secretaries and the like. The District's current timekeeping process is manually intensive and thus increases the risk of the function with opportunities for inefficiencies in the use of workforce production, increased risk of human error or mistakes, and the potential for fraudulent reporting. The District's current process entails the use of manual timesheets, manual key entry by payroll specialists and lack of available reporting for review by the School Administrators and Department Managers. We would like to highlight that although the function is high risk we did not note any instances of fraud during out testing. The District is in the process of researching and identifying an automated timekeeping system. Proper implementation of an automated timekeeping application will reduce the risk of the function and should solve many of the issues noted below.

Due to the future implementation of an automated timekeeping system, this internal audit was tailored to assist in designing a well controlled timekeeping function. Within each issue, we identified internal control recommendations for a manual process and recommendations for an automated process. We have also provided in the Appendix maps of the process for timekeeping several different ways including: the Timekeeping Process "As Is", Timekeeping Process "Best Practices", and Timekeeping Process "Automated Best Practices". Breaking out the recommendations and the process maps provides the District with the internal control options, manual and/or automated, necessary for designing and implementing a timekeeping process with the new system with the appropriate level of controls.

During the course of our work, we discussed the control design and operating deficiencies with management. Our observations and recommendations for improving controls and operations are described in detail in the Issues Matrix included in this report. Each issue is assigned a relative risk factor. Relative risk is an evaluation of the severity of the concern and the potential impact on operations. Items rated as "High" risk are considered to be of immediate concern and could cause significant operational issues if not addressed in a timely manner. Items rated as "Moderate" risk may also cause operational issues and do not require immediate attention, but should be addressed as soon as possible. Items rated as "Low" risk could escalate into operational issues, but can be addressed through the normal course of conducting business. Following is a high level summary of the major issues identified during our review of Timekeeping.

Issues	Risk Rating
Timekeeping Process	
1. <u>Manual Timekeeping Process</u>: The District is currently researching an automated timekeeping system to assist in efficient and accurate payroll processing. The current timekeeping process at the District is intensely manual and inefficient. Overall, manual payroll processing increases the risk for potential costly errors and inaccuracies. The benefit to the District of implementing an automated timekeeping process should provide cost savings by increasing workflow productivity and efficiencies and reducing the risk of errors and/or fraud in the timekeeping process. Based on Management's response, many challenges within this issue should be remediated with the proper implementation and configuration of an automated timekeeping system.	**High**

Executive Summary - continued

Issues	Risk Rating
Segregation of Duties	
2. <u>Segregation of Duties</u>: Appropriate segregation of duties should include separating authorizing, recording, and reconciling functions. These duties are typically owned by different departments. We noted the following segregation of duties conflicts: • The Payroll Specialists input exceptions into Oracle and also performed the verification of the data they inputted. • At all five schools/departments visited, the Timekeepers were responsible for submitting the Payroll Time Report to the District after the Principal signed the report. They have the opportunity to make changes that the Principal would not detect as there is no subsequent review at the school level. • At one school, the Timekeeper approved 4 of 12 employee timecards for selected employees. • Payroll output reports are not submitted to the School Administrator/Department Head for review. Based on Management's response, many challenges within this issue should be remediated with the proper implementation and configuration of an automated timekeeping system.	**High**
Time Reporting Accuracy	

3. <u>Incomplete and Inaccurate Employee Timecards</u>: During our detailed testing, we noted the following errors/inconsistencies related to the manual completion of employee timecards:
• *Documented Review and Approval –*
  o For two of the five selected schools/departments, 8 of 12 and 1 of 8 selected employee timecards were lacking documented review and approval by the Administrator/Department Head.
• *Timeliness of Review and Approval –*
  o For the remaining three schools/departments that had documented Administrator/Department Head review and approval, we were unable to verify timeliness of 5 of 12, 1 of 12 and 1 of 12 for all three schools/departments as the date of approval was not documented.
  o Two of five schools/departments had 1 of 12 and 3 of 12 employee timecards with approvals dated after the timesheets were submitted to payroll.
• *Accuracy of Employee Timecards –*
  o Of the 12 transportation employee timecards selected, one employee timecard included an incorrect annualized time figure, and one did not list an annualized time figure at all.
  o We noted one school had 1 of 8 inaccurate employee timecards in that it included more time than was actually worked. This can occur due to the premature completion of employee timecards. Employees must project their time for 1-2 days at the end of the period, due to time constraints around payroll processing.
  o In the Transportation department, during our recalculation of an employee's timecard of the 12 employee timecards we recalculated, we noted that one employee was overpaid .25 hours. This overpayment was not detected in the Department Head's review of the employee's timecard.
 	
Based on Management's response, many challenges within this issue should be remediated with the proper implementation and configuration of an automated timekeeping system.
	High

Executive Summary - continued

Issues	Risk Rating
Time Reporting Accuracy - continued	
4. <u>Overtime Reporting</u>: During our on-site field work, we reviewed procedures related to tracking overtime, which included discussions with various personnel at the schools. Based on these procedures, it was difficult to determine if all overtime for hourly employees were being captured as most schools did not have a process in place for employees to record time in and out. Administrators and classified employees may not fully comprehend the rules governing overtime, which could lead to non-compliance with the fair labor standards act and the union agreement. This issue is challenging for numerous entities including school districts throughout Florida. We recommend that the District continue to engage their legal counsel to review the District's policies and procedures as they relate to the treatment of overtime for compliance with FLSA. District policy is that overtime must be pre-approved. We noted the following exceptions during our testing: • Per discussion with the Transportation Department Head, they were unaware that documentation of the pre-approval for overtime was required. • All three transportation employees selected for testing were paid overtime and did not have pre-approval to work the overtime. • Supporting documentation of the overtime approval was lacking for two employees tested from the Transportation Department. Based on Management's response, many challenges within this issue should be remediated with the proper implementation and configuration of an automated timekeeping system. It will not address issues related to complete capturing of all overtime.	**High**
5. <u>Compensatory Time</u>: We noted that employees are on an "honor system" and are required to track their own comp time, but are not instructed to use any specified "standard" tracking mechanism. Thus, we were unable to verify if each employee effectively tracks their own comp time as the timekeeper is not required to validate compensatory hour(s) requested for use by the employee. We noted that the teachers had an Optional Planning Day on August 18, 2009, which they could take off a day later in the year. Each school is tracking comp time differently. The District did not have a formal policy for the schools to follow to document and monitor the Optional Planning Day awarded and taken by teachers. Based on Management's response, many challenges within this issue should be remediated with the proper implementation and configuration of an automated timekeeping system.	**High**
6. <u>Inadequate Tracking of Absent from Duty Leave</u>: The District's agreement with the Union (the SJEA Article VI, Section R) states that "absent from duty" leave may be taken up to two hours at a time, as long as the employee makes up the time within ten working days as approved by the principal. The District's agreement states that if the "absent from duty leave" is not made up within ten working days, it will be charged to normal paid leave balances. During our detailed testing we noted the following: • One school does not keep records of absent from duty leave taken. The Timekeeper was not aware of the requirement to keep records over this process and there is no approval process in place. • Three of the four schools tested did not maintain documented approval of absent from duty leave taken. We also noted the following regarding accrual/use method and charge off: • One of the four schools did not keep records of absent from duty leave balances that were to be charged to normal leave balances. • Also, three of the four schools' Timekeepers were not aware of the ten-day make up period requirement of absent from duty leave. Based on Management's response, many challenges within this issue should be remediated with the proper implementation and configuration of an automated timekeeping system.	**High**

Executive Summary - continued

Issues	Risk Rating
Timekeeping Procedures	
7. <u>Insufficient and/or Lack of Payroll Time Report Input and Output Review</u>: We noted that the School Administrators/Department Heads do not receive payroll time reports from the District to review for reasonableness as a detective control in order to identify possible errors. Without the proper review process, the District payroll records could inadvertently contain errors which may not be properly detected within a timely manner. Based on Management's response, this issue should be remediated with the proper implementation and configuration of an automated timekeeping system.	**High**
8. <u>Incomplete Leave of Absence Forms</u>: We noted that Request for Leave of Absence forms are not always completed and/or properly approved as required by District policy. We noted the following inconsistencies: • Request for Leave of Absence Forms were not consistently pre-approved by the employee's supervisor for three of the five schools/departments tested. • Timeliness of approval could not be verified for one of the five schools/departments tested as the date of review was not documented. • One of the five schools/departments with a leave of absence requiring pre-approval was approved after the fact. • One of the five schools/departments selected could not locate the leave of absence form for one employee sampled to substantiate an employee's absence.	**Moderate**
9. <u>Lack of Standardized Documented Procedures</u>: The District currently does not have standardized documented policies and procedures on the timekeeping process at the school and department level which leads to process inefficiencies. The District specifically lacks the following procedures that would improve overall timekeeping accuracy: • Procedure to verify the completeness of absences reported by exempt employees. • Procedure to ensure projected time that an employee may not actually work is reversed from the subsequent payroll period's time records.	**Moderate**
10. <u>Inconsistent Timekeeping Procedures</u>: There was not a consistent time recording process used across all of the five sites visited which may lead to inaccurate time reporting and process inefficiencies. Although there is a standard timesheet available for each District school and department to use, there are currently a variety of mechanisms used to capture employment hours at each of the sites visited which may lead to inaccurate time reporting and process inefficiencies. Based on Management's response, many challenges within this issue should be remediated with the proper implementation and configuration of an automated timekeeping system.	**Moderate**
Recordkeeping	
11. <u>Insufficient Recordkeeping</u>: During our detailed testing, we noted that there is currently insufficient recordkeeping of time records at the sites visited as the records kept do not always comply with the recordkeeping requirements set forth by the Fair Labor Standards Act. Based on Management's response, many challenges within this issue should be remediated with the proper implementation and configuration of an automated timekeeping system.	**High**

Background

Background

What is Timekeeping?

Timekeeping is the tracking and documentation of employment related hours for all employees at the District. This covers exempt as well as non-exempt employees, and includes work time, leave time, vacation time, holidays and all other employment related time. Each individual school and department is responsible for managing the timekeeping process. This involves approving, tracking, and monitoring the time for each employee and inputting the employee time data into the District's computer system.

Overview

The St. Johns County School District has over 3,400 employees. Following is a summary table of employees by functional category (fiscal year 2008-2009):

Administrative Staff	• District Administrators	94
	• School-Based Administrators	88
Instructional Staff	• Teachers	1,729
	• Guidance Counselors	75
	• Other Instructional Support	358
Support Staff	• School Clerical	194
	• School Cafeteria	174
	• School/Department Maintenance	322
	• Bus Drivers/Attendants	468
Total	*Total*	3,502

As illustrated by the table above, the individual schools account for the majority of the District employees. With such a large employee population at the schools, an appropriate timekeeping and control system is imperative to provide adequate internal control over compensation related expenditures. Additionally, it should be recognized that at any given time there are at least 39 separate schools operating independently throughout the District. Consequently, the timekeeping process at schools and departments is highly decentralized. The decentralization of this process causes staff duties, internal procedures and documentation relating to timekeeping to vary significantly throughout the District.

The current year budgeted and prior years payroll expenditures are as follows:

School Year	Payroll Expense
2007/2008	$141,455,279
2008/2009	$135,915,684
2009/2010 – Budgeted	$139,163,254

Background – continued

<u>**Timekeeping Process**</u>

Generally, timekeeping is separated into two categories, as follows:

Classification	Staff Descriptions
Exempt (salary)	• Teachers • District Administrators
Non-exempt (hourly)	• Teacher Aides/Assistants • Clerical/Secretarial • Food Service Workers • Custodians • Etc.

Exempt
- Original source input for the timekeeping process for exempt employees varies at each school and department. This category of employees is compensated, as exempt professionals, through annual salary and not on an hourly basis. For documentation of work attendance for these employees the District uses an exception only method.
- Paid leave days such as sick, vacation, personal, etc. are required to be documented using an "Employee Leave Request" form that is filed with the Timekeeper at each school/department. Substitute teachers are used for these days and are paid hourly, see below for process. Any deviations to their regular schedule, i.e. sick time, vacation days, etc are also reported and entered.

Non-exempt
- Recording of actual time worked by non-exempt employees is documented by using a biweekly "time sheet" at most schools and departments. Each employee has a timesheet that tracks by day the hours worked by the employee. A monthly log is used for Substitute teachers with a sign in sheet designated for them.
- Any deviations to their regular schedule, i.e. sick time, vacation days, etc. are documented on the time sheet. These paid leave days are also required to be documented using a "Request for Leave of Absence" form that is filed with the Timekeeper at each school/department.
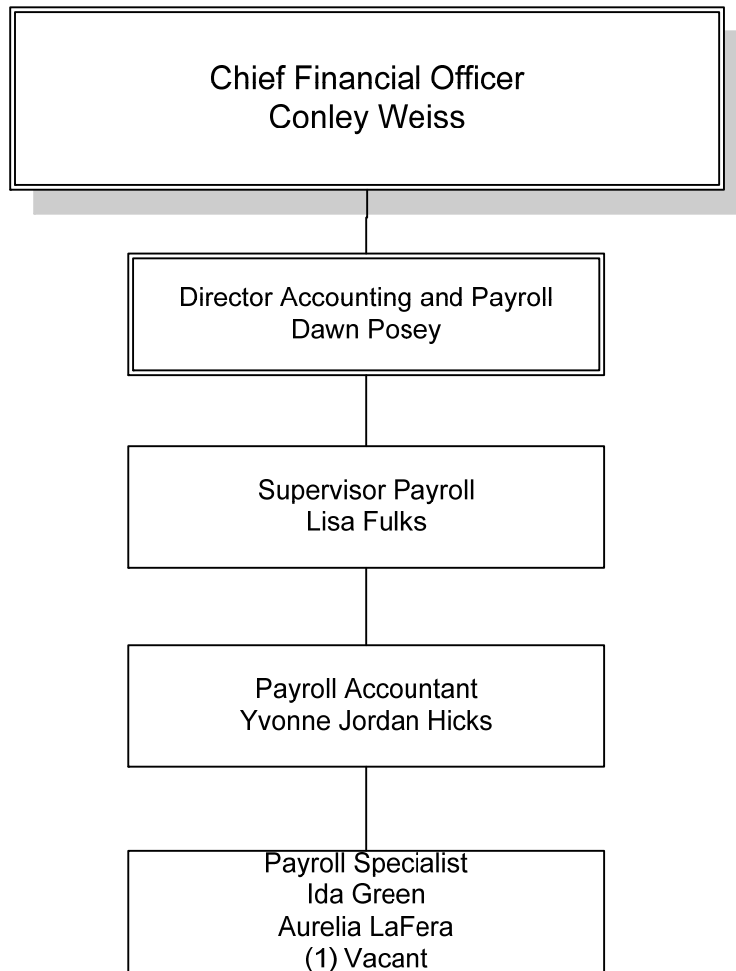
The District's payroll system pre-populates the employee's hours based on the employee status (Full-time vs. Part-time). Thus, the designated timekeeper only accumulates documentation for payroll exceptions for all employees for that school or department to support the "Payroll Time Report," generated by District Payroll Department and sent to each school and department every pay period. Exceptions are those hours that differ from the employee's normal schedule. This may include input of sick time, vacation days, personal time, etc. District Payroll Specialists enter the exceptions into the time system and generate Payroll Edit List, which is self reviewed to ensure time has been posted accurately. Once reviewed, the District processes the payroll. After the payroll processing, each school and department receives the employees' respective live checks and/or check stubs from the District's payroll department. (See process map at the back of this report for a pictorial overview of this process).

Consistent with the risk identified in the risk assessment, our internal audit focused on timekeeping at schools and departments and not payroll processing by the District. Accordingly, our objectives, approach and testing specifically target the timekeeping at the schools and departments as described in the following sections.

Background – continued

Timekeeping Process - continued

Currently the payroll department organization is as follows:

```
┌──────────────────────────────────────┐
│         Chief Financial Officer        │
│             Conley Weiss               │
└──────────────────────────────────────┘
                    │
    ┌──────────────────────────────────┐
    │   Director Accounting and Payroll  │
    │            Dawn Posey              │
    └──────────────────────────────────┘
                    │
    ┌──────────────────────────────────┐
    │         Supervisor Payroll         │
    │            Lisa Fulks             │
    └──────────────────────────────────┘
                    │
    ┌──────────────────────────────────┐
    │         Payroll Accountant         │
    │        Yvonne Jordan Hicks         │
    └──────────────────────────────────┘
                    │
    ┌──────────────────────────────────┐
    │         Payroll Specialist         │
    │             Ida Green              │
    │           Aurelia LaFera           │
    │            (1) Vacant              │
    └──────────────────────────────────┘
```

Objectives and Approach

Objectives and Approach

Objectives

Objectives of the current internal audit review of timekeeping include the following:

- ❑ Identify and assess the effectiveness of accounting, administrative and user access controls over timekeeping and reporting at the schools and departments.

- ❑ Validate that controls over timekeeping at schools and departments include procedures and documents that assure the data used to generate payroll disbursements are adequate.

- ❑ Identify differing practices for timekeeping at schools and departments and identify best practices for the timekeeping and reporting process.

- ❑ Determine that the records and documentation for timekeeping at schools and departments are sufficient to establish an audit trail for all transactions involving employees' time.

Approach

Our audit approach consisted of three phases:

Understanding and Documentation of the Process

During the first phase, we conducted interviews with responsible personnel at various schools and departments, who have responsibilities related to timekeeping and documented their role in the process. We also conducted interviews with payroll personnel at the District to discuss the scope and objectives of the audit work and obtain preliminary data. In addition, we researched and reviewed the Fair Labor Standards Act and applicable District Bylaws & Policies related to timekeeping. We reviewed the two Negotiated Agreements between the District and the St. John's Educational support Professional Association and the St. John's Education Association, noting union requirements and leave provisions. Our understanding of the process "As Is" and "Best Practices" is documented in "Process Maps" and are included as part of this report.

Detailed Testing

We selected four schools (2 middle schools and 2 elementary schools) and one department for the completion of our detailed testing. We also selected one department that is highly regarded for their timekeeping tracking process. The purpose of this phase was the execution of applicable tests of compliance and controls around time records and transactions for the schools and departments selected. Our fieldwork was conducted at the school and department sites where we utilized sampling and other auditing techniques as follows to meet our audit objectives outlined above:

- ❑ On-site visit and inquiry of school/department personnel to obtain detailed documentation of the process.
- ❑ Testing of employee time tracking methods, practices, documents and procedures.
- ❑ Testing of overtime approval, documentation and reporting where applicable.
- ❑ Test leave time tracking and approval process.
- ❑ Review tracking of substitute teachers.
- ❑ Review of forms utilized.

Reporting

At the conclusion of our audit, we summarized our findings related to timekeeping at the District. We conducted an exit conference with the Chief Financial Officer, Director of Accounting and Payroll and the Payroll Supervisor. We have incorporated management's response into our report.

Issues Matrix

ISSUES MATRIX

Rating	Issues	Recommendation	Management Response
Timekeeping System			
High	**1. *Manual Timekeeping Process***		
	The District does not have an automated timekeeping system in place to assist in efficient and accurate payroll processing. The District currently utilizes Oracle for timekeeping and payroll processing, which entails the use of manual timesheets, manual sign offs from School Administrators/Department Heads, manual key entry by payroll specialists and lack of available reporting for District Management and School Administrators/ Department. **Workflow Inefficiency** The use of manual timekeeping system causes additional procedures, such as: • Manual calculation of time by payroll clerk/administrator at the school or department; • Manual entry of time in the payroll system by the payroll clerk/timekeeper based on the manual timesheet; • Reconciliation and verification of data input into the payroll system from the timesheet including gross pay. **Manual Timekeeping Process Risks** Risks associated with the use of a manual timekeeping system include: • Fraudulent time reporting outside of normal hours • Human error upon data entry • Processing of unauthorized employee time • Inefficient use of workforce productivity – manual steps; time spent interpreting unreadable timesheets; follow up on missing timesheets; recalculation of totals; and dealing with other irregularities in the source documents provided • Lack of audit trail • Exposure to compliance risk	We recommend that the District implement solutions to automate timekeeping processing to enhance the collecting, processing and monitoring of District employees' time, attendance and productivity. There will no longer be a need for manual key entry of exceptions by the Payroll Specialists, which will also enhance segregation of duties over payroll entry and processing. An automated timekeeping system will allow the District to more accurately record time and thus generate useful statistics and trending to determine the hours needed to complete a given "job function". This information will be useful in staffing and budget planning. This type of analysis currently cannot be obtained given the current decentralization and manual intensity of the process. Additionally, under an automated system, it is less likely that employees would need to project time that has not been worked since time to physically transfer the time records to the District would not be required. Furthermore, automated timekeeping systems are capable of tracking employee and time attendance through magnetically encoded identification badges that are scanned into the time keeping machines. The systems then calculate the number of hours worked each day by hourly employees and interfaces with the payroll modules. This increases the effectiveness and efficiency in time required for the Payroll department to process payroll.	The District is currently in the process of implementing a new Enterprise Resource Planning (ERP) system which will significantly automate many of the business processes that are currently done manually. The system will decrease the data input necessary to process payroll, provide for automated workflow for the approval processes, and provide for automated workflow for the reporting/verification process. **Owner:** Conley Weiss, Chief Financial Officer **ECD:** June 2012

Rating	Issues	Recommendation	Management Response
Timekeeping System			
High	**1.** *Manual Timekeeping Process - continued*		
	Overall, manual payroll processing increases the risk for potential costly errors and inaccuracies. The benefit to the District of implementing an automated timekeeping process should provide cost savings by increasing workflow productivity and efficiencies and reducing the risk errors the timekeeping process.	**Benefits of an Automated Timekeeping System** Other notable benefits of an automated timekeeping system include the following: • Environmentally friendly by reducing the amount of paper utilized, printing and distribution costs • Recording time immediately and accurately • Reducing risk of errors of recording and calculating employee time and leave of absence • Allowing staff real-time access to track and monitor leave of absences and ensure no overpayments • Applying applicable/appropriate pay rules and policies consistently to all employees including employees working more than one position in the District, employees covered by union rules, hourly employees' overtime tracking, etc. • Providing audit trails for any adjustments or changes made to employee records • Providing relevant ad hoc management reports i.e. time and attendance, accruals, overtime, and employee data etc. • Proper budgeting and monitoring (budget vs. actual analysis) of funds across all areas as mandated by the District • Allows employees to access their own time and attendance data and other personnel information in real time from personal computers • Assists with compliance with Federal Rules and Regulations: the US Fair Labor Standards Act (FLSA) by tracking weighted overtime and US Family Medical Leave Act (FMLA) requires a whole separate set of paperwork, documentation and monitoring procedures *Within each issue below, we identified recommendations for the current timekeeping system and recommendations if the District implements an automated process*.	

ISSUES MATRIX

Rating	Issues	Recommendation	Management Response
Segregation of Duties			
High	2. *Segregation of Duties*		
	Appropriate segregation of duties should include separating authorizing, recording, and reconciling functions. These duties are typically owned by different departments. We reviewed the segregation of duties for the timekeeping function at the schools and the district and noted the following gaps: • The Payroll Specialists input exceptions into Oracle and also performed the verification of the data they inputted. • At all five schools/departments visited, the Timekeepers were responsible for submitting the Payroll Time Report to the District after the Principal signed the report. They have the opportunity to make changes that the Principal would not detect as there is no subsequent review at the school level. • At one school, the Timekeeper approved the timecards for three selected employees. • Payroll output reports are not submitted to the School Administrator/Department Head for review. Without the proper segregation of duties and user access surrounding timekeeping, errors, misappropriation of payroll funds or other types of irregularities could occur without being detected in a timely manner, if at all.	**Recommendation for Current Timekeeping System** We recommend that the District implement the following steps as documented in the "Manual Best Practices Process Map" in the Appendix in order to ensure proper segregation of duties and user access within the Timekeeping process: • School Administrators/Department Heads should be actively reviewing their employee's timesheets to the supporting documentation for accuracy and documenting by sign-off prior to forwarding time data for input as noted in the "Incomplete and Inaccurate Employee Timecards" Issue #3. • All time data input into the system by the Payroll Specialists should be reviewed and verified by an independent designated employee. This employee should complete all verification of time entry prior to payroll processing. Additionaly, this person should have "view only" access to the timekeeping profile in Oracle. If an independent designated employee is not available, this review should be performed by the other Payroll Specialist that does not input exceptions for that respective school or department. • Payroll output reports of processed payroll should be sent from the District to the school/department for formal review and approval with proper sign-off by the Administrator/Department Head and kept on file at the respective site as recommended in the **"**Insufficient and/or Lack of Payroll Time Report Input and Output Review**"** Issue #7. • The input of the Payroll Specialists' time should be performed by someone independent of employee setup and payroll processing. • Access to timekeeping entry should be limited to persons independent of the employee setup and payroll processing. Appropriate segregation and user access should be reviewed and monitored regularly, especially when there are job / function changes.	With the implementation of a new ERP system, the District plans to incorporate the segregation of duties within the workflow process to ensure that the authorizing, recording, and reconciling processes are appropriately segregated. **Owner:** Conley Weiss, Chief Financial Officer **ECD:** June 2012

ISSUES MATRIX

Rating	Issues	Recommendation	Management Response
Segregation of Duties			
High	**2.** *Segregation of Duties - continued*		
		Recommendation for Automated Timekeeping System We recommend that the District implement the following steps as documented in the "Automated Best Practices Process Map" in the Appendix in order to ensure proper segregation of duties and user access within the Timekeeping process: System Configuration • The timekeeping system will provide a warning message to the respective employee that their total hours for that day exceeds their normal allotted hours upon daily time input by the respective employee. • Employees have individual user names and passwords in the timekeeping system. • Only the appropriate School Administrators/ Department Heads have access to review and approve employees; time to supporting documentation for accuracy in the timekeeping system on a real time basis. Their access is driven by individual user IDs and passwords. • The system will not permit the School Administrators/Department Heads to review and approve time in the timekeeping system, until the employee has approved and submitted their own time in the timekeeping system. • The system will not process employees' payroll until it has been approved in the system by the School Administrator/Department Head.	

ISSUES MATRIX

Rating	Issues	Recommendation	Management Response
Segregation of Duties			
High	2. *Segregation of Duties - continued*		
		Exception Reporting/Monitoring • Weekly, each School Administrator/Department Head should run exception reports of their employees that exceeded their daily normal allotted time to ensure that there is supporting documentation to substantiate any time deviations. • Payroll output exceptions reports of processed payroll should be sent from the District to the school/department for formal review and approval with proper sign-off by the Administrator/Department Head and kept on file at the respective site as recommended in the ""Insufficient and/or Lack of Payroll Time Report Input and Output Review" Issue #7.	

ISSUES MATRIX

Rating	Issues	Recommendation	Management Response
Time Reporting Accuracy			
High	**3.** *Incomplete and Inaccurate Employee Timecards*		

	Timesheets currently used at the schools and departments do not always offer accurate time records as the timesheets are manually completed and then manually input into the system.
	• *Documented Review and Approval* – For two of the five selected schools/departments, 8 of 12 and 1 of 8 selected employee timecards were lacking documented review and approval by the Administrator/Department Head.
	• *Timeliness of Review and Approval* –
	  o For the remaining three schools/ departments that had documented Administrator/Department Head review and approval, we were unable to verify timeliness of 5 of 12, 1 of 12 and 1 of 12 for all three schools/departments as the date of approval was not documented.
	  o Two of five schools/departments had 1 of 12 and 3 of 12 employee timecards with approvals dated after the timesheets were submitted to payroll.
		Recommendation for Current Timekeeping System
		We recommend the District perform the following:
		• Require hourly employees to sign-off on their timesheets/records for accuracy prior to the end of the payroll period and payroll processing.
		• Re-educate the Administrators/Department Heads of the importance of their review of employee timesheets to supporting documentation, including the documentation of their review and approval to ensure time is accurate and reasonable.
		• Require all schools/departments have a process in place to monitor time projections to real time worked and reporting of exceptions for the next payroll cycle.
		• All of the above approvals should be dated so that timeliness of sign off can be verified.
		
		The above will help strengthen accountability to the employees and Administrators/Department Heads to help ensure accurate reporting of employee time. These critical controls should be incorporated into documented policies and procedures as recommended in Issue #9.
		
		Recommendation for Automated Timekeeping System
		• The timekeeping system will require employees to approve their time reporting in the timekeeping system for accuracy in order for the Administrators/Department Heads to have the ability to review and approve in the timekeeping system.
		• Re-educate the Administrators/Department Heads of the importance of their review of employee timesheets to supporting documentation; including the documentation of their review and approval of supporting documentation ensure time is accurate and reasonable.
			It is the District's intent that this process is automated through the implementation of the new ERP system and that the review and approval process is appropriately workflowed through the system.
			
			In addition, with the implementation of the new system, the Payroll Department will provide training on the importance of timesheet accuracy and the approval process.
			
			Owner: Conley Weiss, Chief Financial Officer
			
			ECD: June 2012

ISSUES MATRIX

Rating	Issues	Recommendation	Management Response
Time Reporting Accuracy – continued			
High	**3. _Incomplete and Inaccurate Employee Timecards - continued_**		
	• _Accuracy of Employee Timecards –_ o Of the 12 transportation employee timecards selected, one employee timecard included an incorrect annualized time figure, and one did not list an annualized time figure at all. o We noted one school had 1 of 8 inaccurate employee timecards in that it included more time than was actually worked. This can occur due to the premature completion of employee timecards. Employees must project their time for 1-2 days at the end of the period, due to time constraints around payroll processing. o In the Transportation department, during our recalculation of an employee's timecard of the 12 employee timecards we recalculated, we noted that one employee was overpaid .25 hours. This overpayment was not detected in the Department Head's review of the employee's timecard. Because of the manually intensive timekeeping process, the Administrator/Department Head's review of the timesheets to supporting documentation is a key step in detecting erroneous time reporting and over/under payments caused by human error.	Inaccurate projection of time would no longer be a risk to the District, as time would be reported and submitted on a real time basis.	

ISSUES MATRIX

Rating	Issues	Recommendation	Management Response
Time Reporting Accuracy – continued			
High	4. *Overtime Reporting*		
	During our on-site field work, we reviewed procedures related to tracking overtime, which included discussions with various personnel at the schools. Based on these procedures, it was difficult to determine if all overtime for hourly employees were being captured as most schools did not have a process in place for employees to record time in and out.	<u>**Recommendation for Current Timekeeping System**</u> We recommend that the District continue to engage their legal counsel to review the District's policies and procedures as they relate to the treatment of overtime for compliance with FLSA.	The District will evaluate and revise their policies and procedures related to the treatment of overtime for compliance with FLSA, including the process of approving, documenting, and tracking compensatory time.
	The following is how overtime should be accounted for with regard to classified employees at the school level:	The District should also heighten the awareness of the overtime requirements to the Administrators and all District employees. This could be accomplished by:	In addition, the District will heighten the awareness of overtime policies and procedures through formal and informal processes.
	As noted from the Overtime Pay Requirements of the Fair Labor Standards Act "FLSA"– "The overtime requirement may not be waived by agreement between the employer and employees. An agreement that only 8 hours a day or only 40 hours a week will be counted as working time also fails the test of FLSA compliance. An announcement by the employer that no overtime work will be permitted, or that overtime work will not be paid for unless authorized in advance, also will not impair the employee's right to compensation for compensable overtime hours that are worked."	• Incorporating the importance of proper overtime reporting at an Administrators'/Department Head meeting at the beginning of each school year by providing a training session on FLSA requirements and walking through various overtime reporting scenarios. • Circulating a memorandum specifying the overtime policy of the District to all employees containing overtime specific FLSA and Union Agreement literature in order to ensure that the District is properly recording all hours worked for hourly employees and authorizing/tracking compensatory time accordingly.	**Owner:** Conley Weiss, Chief Financial Officer and Jim Springfield, Associate Superintendent of Human Resources **ECD:** June 2012
	During our on-site fieldwork, we reviewed procedures related to tracking overtime and compensatory time. District policy is that employees are to be paid overtime for hours worked over 40. However, proper controls are not in place to ensure accurate reporting of overtime.	• Have employees sign the overtime policy on an annual basis and keep it in their employee file to instill accountability. • Formalize the process of approving, documenting and tracking compensatory time awarded and taken by employees. The new policy should be circulated and added to training workshops to ensure the new process is thoroughly understood by all parties involved.	
		<u>**Recommendation for Automated Timekeeping System**</u> As compliance with FLSA is a risky area, the above recommendations would be the same. In addition, the timekeeping system would need to be configured to track and calculate overtime, even when an employee works two or more different jobs, weighted overtime and comply with the FLSA and other applicable legislation.	

ISSUES MATRIX

Rating	Issues	Recommendation	Management Response
Time Reporting Accuracy – continued			
High	**4.** *Overtime Reporting - continued*		
	Overtime Documentation and Pre-Approval District policy is that overtime must be pre-approved. We noted the following: • Per discussion with the Transportation Department Head, they were unaware that documentation of the pre-approval for overtime was required. • All three transportation employees selected for testing were paid overtime and did not have pre-approval to work the overtime. • Supporting documentation of the overtime approval was lacking for two employees tested from the Transportation Department. Administrators and classified employees may not fully comprehend the rules governing overtime, which could lead to non-compliance with the fair labor standards act and the union agreement.		

ISSUES MATRIX

Rating	Issues	Recommendation	Management Response
Time Reporting Accuracy – continued			
High	**5.** *Compensatory Time*		
	Lack of Formal Policies Over Monitoring Compensatory Time	**Recommendation for Current Timekeeping System**	The District will establish and implement a formal policy pertaining to the reporting and documenting of compensatory time earned and used, including the monitoring of the optional planning days awarded and taken by the teachers.
	Compensatory time (or 'comp' time) is time that may be granted in lieu of overtime pay for hours worked in excess of forty hours each workweek.	The District should also heighten the awareness of granting and monitoring of comp time granted to the School Administrators/Department Heads and all District employees. This could be accomplished by formalizing the process of approving, documenting and tracking compensatory time awarded and taken by employees. The new policy should be circulated and added to training workshops to ensure the new process is thoroughly understood by all parties involved.	
	We noted that the teachers had an Optional Planning Day on August 18, 2009, which they could take off a day later in the year. Each school is tracking comp time differently. The District did not have a formal policy for the schools to follow to document and monitor the Optional Planning Day awarded and taken by teachers.		**Owner:** Conley Weiss, Chief Financial Officer and Jim Springfield, Associate Superintendent of Human Resources
	Maintenance of Records to Support Comp Time	**Recommendation for Automated Timekeeping System**	**ECD:** August 2012
	FLSA requires that employers keep records on wages and hours (time). We noted that one of the schools visited does not track comp time for each of their employees using a tracking mechanism with a cumulative balance. Instead employees are on an "honor system" and are required to track their own comp time, but are not instructed to use any specified "standard" tracking mechanism.	Automated timekeeping systems have the capability to track compensatory time as well. Weekly, each School Administrator/Department Head should run exception reports of employees that exceeded their daily normal allotted time to ensure that the time is accurate and there is supporting documentation to substantiate any time deviations.	
	Thus, we were unable to verify if each employee effectively tracks their own comp time as the timekeeper is not required to validate compensatory hour(s) requested for use by the employee.		
	This method is susceptible to inaccuracies that could lead to under/over use of comp time by an employee.		

ISSUES MATRIX

Rating	Issues	Recommendation	Management Response
Time Reporting Accuracy – continued			
High	6. *Inadequate Tracking of Absent from Duty Leave*		
	The District's agreement with the Union (the SJEA Article VI, Section R) states that "absent from duty" leave may be taken up to two hours at a time, as long as the employee makes up the time within ten working days as approved by the principal. The District's agreement states that if the "absent from duty leave" is not made up within ten working days, it will be charged to normal paid leave balances. **Absent from Duty Leave Tracking and Approval** During our detailed testing we noted the following: • One school does not keep records of absent from duty leave taken. The Timekeeper was not aware of the requirement to keep records over this process and there is no approval process in place. • Three of the four schools tested did not maintain documented approval of absent from duty leave taken. **Accrual / Use Method and Charge Off** We noted the following: • One of the four schools did not keep records of absent from duty leave balances that were to be charged to normal leave balances. • Also, three of the four schools' Timekeepers were not aware of the ten-day make up period requirement of absent from duty leave. Without proper controls in place to monitor absent from duty time, the District could inadvertently pay employees for time not worked.	**Recommendation for Current Timekeeping System** We recommend the District formalize the process of approving, documenting and tracking absent from duty leave per the Union agreement. The tracking is to ensure time taken by employees was properly made up within 10 working days or leave with pay was utilized to cover the absent from duty leave taken. This new procedure should be circulated and added to training workshops to ensure the new process is thoroughly understood by all parties involved as recommended in the "Lack of Standardized Documented Procedures" Issue #9. **Recommendation for Automated Timekeeping System** The above recommendation would be the same with the inclusion of the below exception reporting. All School Administrator/Department Heads should review the system generated exception reporting available from the timekeeping system that reports the date and number of hours each employee was absent from duty. This report will facilitate the School Administrator/Department Heads' ability to monitor and document that an employee's time was appropriately made up within 10 working days.	The District will establish and implement formal policies and procedures for the tracking and monitoring of "absent from duty leave", as defined in the Union agreement, to ensure that the time is made up within ten days or leave is appropriately taken. In addition, the District will circulate the new policies and provide appropriate training. **Owner:** Conley Weiss, Chief Financial Officer and Jim Springfield, Associate Superintendent of Human Resources **ECD:** June 2012

ISSUES MATRIX

Rating	Issues	Recommendation	Management Response
Time Reporting Accuracy – continued			
High	**7.** *Insufficient and/or Lack of Payroll Time Report Input and Output Review*		
	The District submits the "Payroll Time Report" to the schools/departments each pay period. The respective Timekeepers at the schools/departments manually write the employee exceptions on the payroll time report and attach the timesheets and supporting exception documentation. This may include input of sick time, vacation days, personal time, etc. The Administrators/Department Heads manually review and approve the payroll time report with supporting documentation. The Timekeepers submit the payroll time report with supporting documentation to the Payroll Department for key entry by the Payroll Specialists. **Payroll Time Report Input Review** We noted the following: • The review of the time entered at the District is not independent in that each Payroll Specialist reviews their own entries **Payroll Time Report Output Review** • After payroll is processed for the pay period, payroll reports are not submitted to the schools/departments for review. Without the proper review process, the District payroll records could inadvertently contain errors which may not be properly detected within a timely manner.	**Recommendation for Current Timekeeping System** We recommend that the District perform the following: • Require that payroll time reports received from the District be formally reviewed for reasonableness and approved with proper sign-off by the School Administrator/ Department Head and kept on file at the respective site as recommended in Issues #3 and #4. • All of the above approvals should be dated so that timeliness of sign off can be verified. • The Payroll Specialists should review each others' Payroll Edit Report prior to submission of the payroll time entries and formally sign-off as recommended in the "Segregation of Duties and User Access" Issue #2. . • The payroll reports of processed payroll should be sent to the schools from the District, formally reviewed for reasonableness and approved with proper sign-off by the principal /department head and kept on file at the school/department as recommended in the "Segregation of Duties and User Access" Issue #2. • Any discrepancies identified from these reviews should be reported back to District in a timely manner via a formal correction form. This will improve the independence of the review of time entered and will aid in the identification of errors (if any) as identified in Issue #3.	The implementation of the new ERP system will eliminate the manual approval process. Automated timesheets will first be workflowed to the employee for verification, then to the Department Head for approval, and then to the Payroll Supervisor for upload and processing. The payroll specialists will verify the accuracy of the payroll information. In addition, processed payroll time reports will automatically be sent to Administrators/Department Heads and reviewed for reasonableness. **Owner:** Conley Weiss, Chief Financial Officer **ECD:** June 2012

ISSUES MATRIX

Rating	Issues	Recommendation	Management Response
Time Reporting Accuracy – continued			
High	7. *Insufficient and/or Lack of Payroll Time Report Input and Output Review-continued*		
		Recommendation for Automated Timekeeping System • The timekeeping system will require employees to approve their time reporting in the timekeeping system for accuracy in order for the School Administrators/Department Heads to have the ability to review and approve in the timekeeping system. • Re-educate the Administrators/Department Heads of the importance of their review of employee timesheets to supporting documentation, including the documentation of their review and approval of supporting documentation to ensure time is accurate and reasonable. • Weekly, each School Administrator/Department Head should run exception reports of their employees that exceeded their daily normal allotted time to ensure that there is supporting documentation to substantiate any time deviations. • At minimum, the payroll output exception reports of processed payroll should be sent to the schools from the District, formally reviewed for reasonableness and approved with proper sign-off by the School Administrator/Department Head and kept on file at the school/department as recommended in the "Segregation of Duties and User Access" Issue #2. • Any discrepancies identified from these reviews should be reported back to District in a timely manner via a formal correction form.	

ISSUES MATRIX

Rating	Issues	Recommendation	Management Response
Timekeeping Procedures			
<mark>**Moderate**</mark>	**8. *Incomplete Leave of Absence Forms***		
	The District currently requires that all requests for leave be submitted on the proper form and with approval of the employee's immediate administrative supervisor. Non-emergency leave should be pre-approved by the immediate supervisor. We noted the following inconsistencies: • Request for Leave of Absence Forms were not consistently pre-approved by the employee's supervisor for three of the five schools/departments tested. • Timeliness of approval could not be verified for one of the five schools/departments tested as the date of review was not documented. • One of the five schools/departments with a leave of absence requiring pre-approval was approved after the fact. • One of the five schools/departments selected could not locate the leave of absence form for one employee sampled to substantiate an employee's absence.	The District should heighten the awareness of the District leave approval policies to employees with timekeeping responsibilities to ensure District policy compliance by each school and department. This can be done by circulating the Leave related policies and adding them to training workshops to ensure the policies are thoroughly understood by all parties involved.	The District will continue to inform employees of the importance of leave forms and the preapproval process. In addition, with the implementation of the new system, the District plans to automate the leave process and send notifications to the timekeepers and Department Heads to alert them when an employee has already used leave that requires preapproval. **Owner:** Conley Weiss, Chief Financial Officer and Jim Springfield, Associate Superintendent of Human Resources **ECD:** June 2012

ISSUES MATRIX

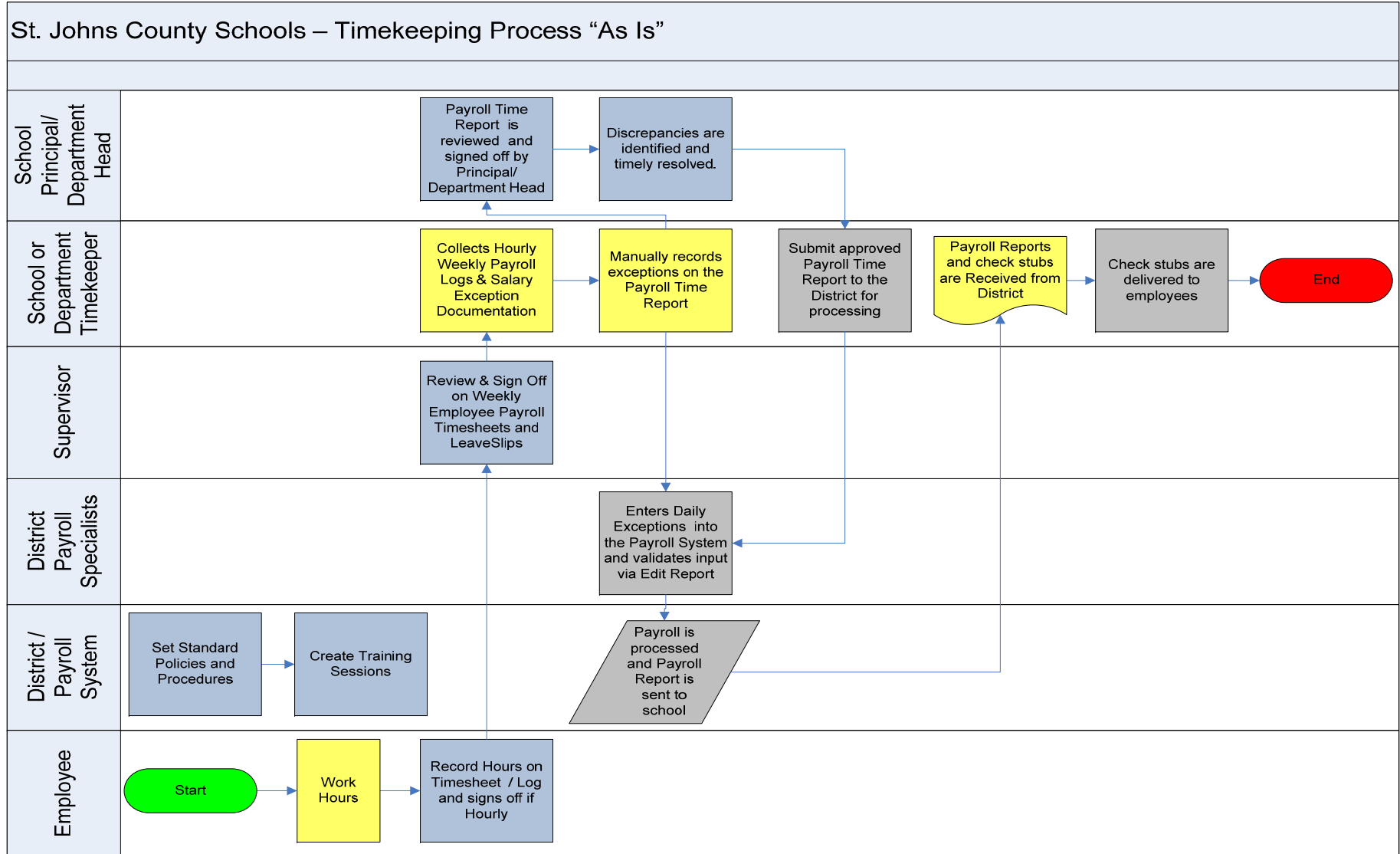| Rating	Issues	Recommendation	Management Response
Timekeeping Procedures - continued			
Moderate	**9. *Lack of Standardized Documented Procedures***		
	The Payroll Department has documented procedures for the timekeeping process at the District level. Per inquiry with the schools/departments they are unaware of updated documented timekeeping policies and procedures. Formal, written procedures provide vital information to employees in the event of absences, employee turnover or other occurrences. These procedures would provide detailed instructions on routine functions, as well as any non-routine occurrences in order to help ensure consistency and compliance with District policies and FLSA. The District specifically lacks the following procedures that would improve overall timekeeping accuracy: • Procedure to verify the completeness of absences reported by exempt employees. • Procedure to ensure projected time that an employee may not actually work is reversed from the subsequent payroll period's time records. Due to the lack of standardized documented procedures and the de-centralized nature of the schools and departments, inconsistencies were noted in the timekeeping process from site to site causing many of the issues noted within this report which include the following: • Lack of verification and review of time causing discrepancies in data input (Issue #3) • Inconsistent recording of overtime (Issue #4) • Inconsistent recording of time for exempt employees (Issue #10)	We recommend that standardized timekeeping procedures be created, documented in a manual and implemented across the District. Once created, the standard process should be introduced by incorporating it into the District's training offered to all timekeepers. This training should be mandated to all employees with timekeeping responsibilities; it should recur annually and be updated with any changes accordingly. Additionally, material from this annual training should be incorporated into the District's current trainings held for smaller groups throughout the year. These standard procedures and training materials should incorporate best practices from across the District and be posted on the intranet for the timekeepers' future reference throughout the year. This will assist in achieving consistent, standardized proper tracking and reporting of employee hours and ensure compliance with applicable District policies, payroll laws and regulations.	The District will establish and implement formal policies and procedures that will standardize all of the timekeeping procedures to provide for consistency across all schools and departments. **Owner:** Conley Weiss, Chief Financial Officer **ECD:** Ongoing

ISSUES MATRIX

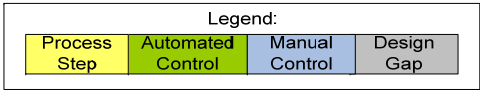| Rating	Issues	Recommendation	Management Response
Timekeeping Procedures – continued			
Moderate	**10. *Inconsistent Timekeeping Procedures***		
	We noted during our detailed testing that there was not a consistent time recording process used across all of the five sites visited. Although there is a standard timesheet available for each District school and department to use, there are currently a variety of mechanisms used to capture employment hours at each of the sites visited which may lead to inaccurate time reporting and process inefficiencies. The following are different mechanisms that were utilized at the five sites visited: *Exempt employees* • Day calendars used to record teacher absences. • Substitute tracking log from the SmartFind system used to track teacher absences. • Leave of absence forms. Based on discussions with the staff responsible for timekeeping at the schools and departments, a standard required time tracking mechanism has not been provided for their use. Thus, each school and department has designed their own time tracking system. All mechanisms reviewed are different in some respects which may cause inefficiencies and interruptions in the day to day timekeeping process in the event of timekeeper turnover. Without standardized policies, procedures and forms to capture employment hours, errors could occur and not be detected in a reasonable time period. Thus, causing over/under payment to employees. Additionally, standardization would help ensure compliance with applicable wage and hour laws, employment agreements and ensure appropriate recordkeeping as noted in Issue #3.	**<u>Recommendation for Current Timekeeping System</u>** As previously recommended in Issue #7, standard timekeeping practices combined with adequate training sessions should be created and utilized by the entire District for timekeeping. The following standard practices with respective trainings should be implemented at a minimum as it relates to timekeeping: *Exempt employees* • All employees should be trained on how to report absences within the SmartFind system, whether they require a substitute or not. This will enable the Timekeeper to have a source population of absences to track receipt of Leave Approval forms to. The report can also be provided to the Principal of each school for review. • Leave of absence forms should be reconciled to the substitute sign-in/out sheets and SmartFind system records where applicable. **<u>Recommendation for Automated Timekeeping System</u>** The risk of inconsistent timekeeping procedures is greatly reduced as all time is tracked and monitored in an automated timekeeping system that the employee and School Administrator/Department review and approve.	With the implementation of the new ERP system, the District will standardize the method utilized for timekeeping to the extent practical. **Owner:** Conley Weiss, Chief Financial Officer **ECD:** June 2012

ISSUES MATRIX

Rating	Issues	Recommendation	Management Response
Recordkeeping			
High	**11.**　*Insufficient Recordkeeping for Non-Exempt Employees*		
	We noted during our detailed testing that there is currently insufficient recordkeeping of time records for non-exempt employees at the schools/departments selected.　FSLA states that the employer must maintain the following records related to employee hours for non-exempt employees: 　1.　Hours worked each day 　2.　Total hours worked each workweek In addition it states, *"Many employees work on a fixed schedule from which they seldom vary. The employer may keep a record showing the exact schedule of daily and weekly hours and merely indicate that the worker did follow the schedule. When a worker is on the job for a longer or shorter period of time than the schedule shows, the employer must record the number of hours the worker actually worked, on an exception basis."* However, we noted that a log documenting the exceptions from the fixed schedule was not always documented in a formal record.　The only documentation provided to the Timekeeper in most cases for non-exempt employees is the timesheet and supporting documentation for exception, eg. leave request forms for the period, which are then used to prepare and substantiate the Payroll Time Report. If a Leave of Absence Request form was not presented to the Timekeeper, the overall record (Payroll Time Report) would be inaccurate as there is no other source document where the non-exempt employees record their time.	**Recommendation for Current Timekeeping System** We recommend the District heighten the awareness of the FLSA requirements to the Administrators and employees responsible for timekeeping activities.　This could be accomplished by providing a training session that dedicates time to FLSA compliance as it relates to the appropriate recordkeeping of time records. **Recommendation for Automated Timekeeping System** The risk of insufficient recordkeeping is greatly reduced as all time is tracked and monitored in an automated timekeeping system that the employee and School Administrator/Department review and approve.	The District will heighten the awareness of FLSA requirements to administrators and employees for timekeeping and will continue to emphasize the importance of the completion and preapproval of leave forms. **Owner:** Conley Weiss, Chief Financial Officer and Jim Springfield, Associate Superintendent for Human Resources. **ECD:** Ongoing

Appendix

APPENDIX A

St. Johns County Schools – Timekeeping Process "As Is"

School Principal/ Department Head

- Payroll Time Report is reviewed and signed off by Principal/ Department Head
- Discrepancies are identified and timely resolved.

School or Department Timekeeper

- Collects Hourly Weekly Payroll Logs & Salary Exception Documentation
- Manually records exceptions on the Payroll Time Report
- Submit approved Payroll Time Report to the District for processing
- Payroll Reports and check stubs are Received from District
- Check stubs are delivered to employees
- End

Supervisor

- Review & Sign Off on Weekly Employee Payroll Timesheets and LeaveSlips

District Payroll Specialists

- Enters Daily Exceptions into the Payroll System and validates input via Edit Report

District / Payroll System

- Set Standard Policies and Procedures
- Create Training Sessions
- Payroll is processed and Payroll Report is sent to school

Employee

- Start
- Work Hours
- Record Hours on Timesheet / Log and signs off if Hourly

"Exceptions" are those hours that the employee does not work. For example, sick time, vacation, personal time. Since the system pre-populates the time based on the employee's status (FT or PT) only the exceptions to the hours are entered.

Legend:

Process Step	Automated Control	Manual Control	Design Gap

APPENDIX B

St. John's County Schools – Timekeeping Process "Manual Best Practices"

School Principal/Department Head

- Payroll Time Report is reviewed and signed off by Principal/Department Head
- Discrepancies are identified and timely resolved.
- Payroll Edit Report is reviewed and signed off by Principal

School or Department Timekeeper

- Collects Hourly Weekly Payroll Logs & Salary Exception Documentation
- Manually records exceptions on the Payroll Time Report
- Submit approved Payroll Time Report to the District for processing
- Payroll Reports and check stubs are Received from District
- Check stubs are delivered to employees
- End

Supervisor

- Review & Sign Off on Weekly Employee Payroll Timesheets and LeaveSlips

District Payroll Specialists

- Enters Daily Exceptions into the Payroll System
- Time Entries are independently reviewed for accuracy

District / Payroll System

- Set Standard Policies and Procedures
- Create Training Sessions
- Payroll is processed and Payroll Report is sent to school

Employee

- Start
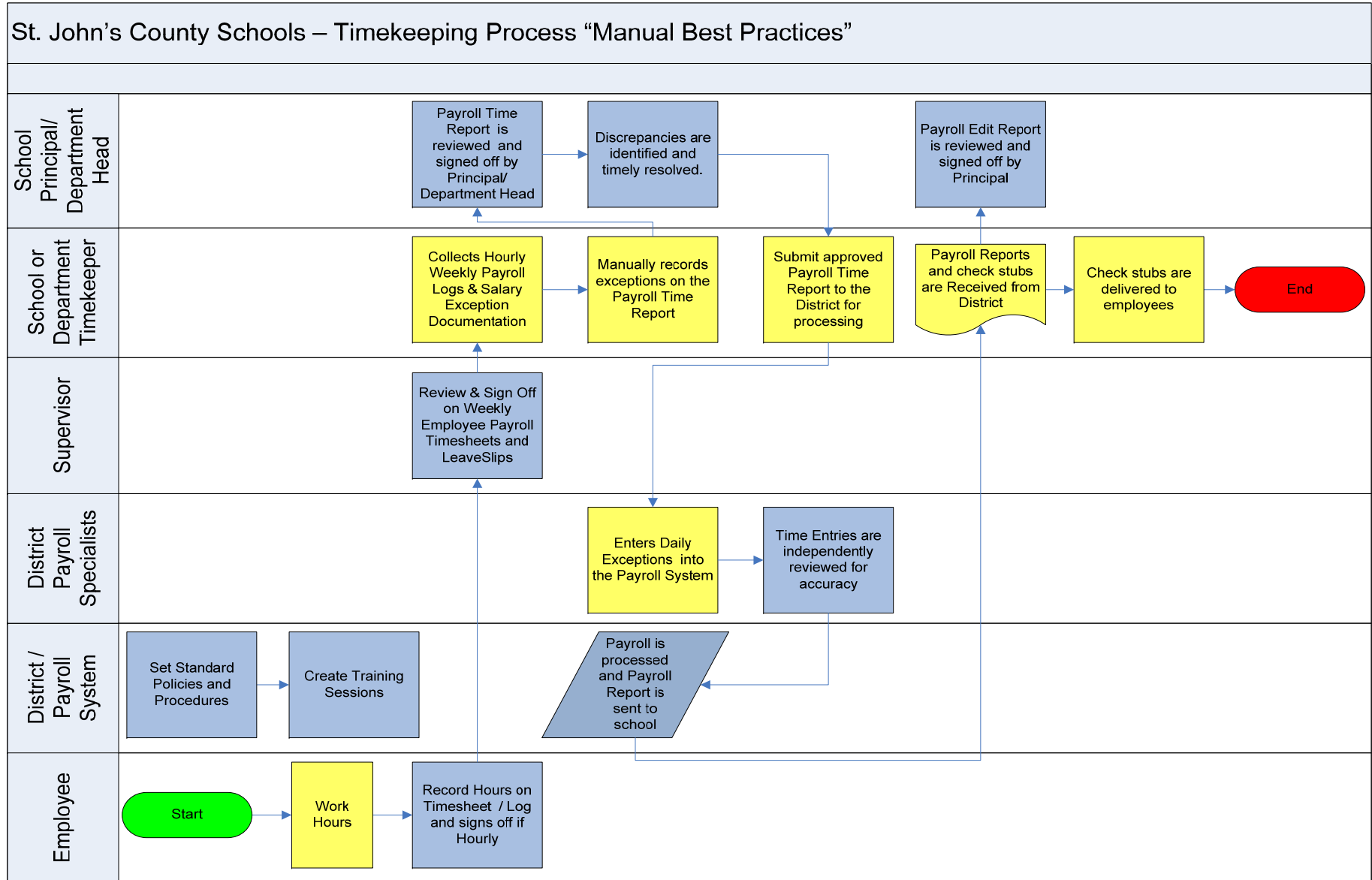- Work Hours
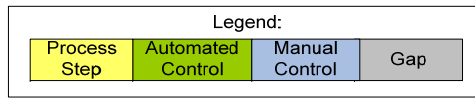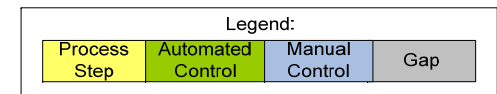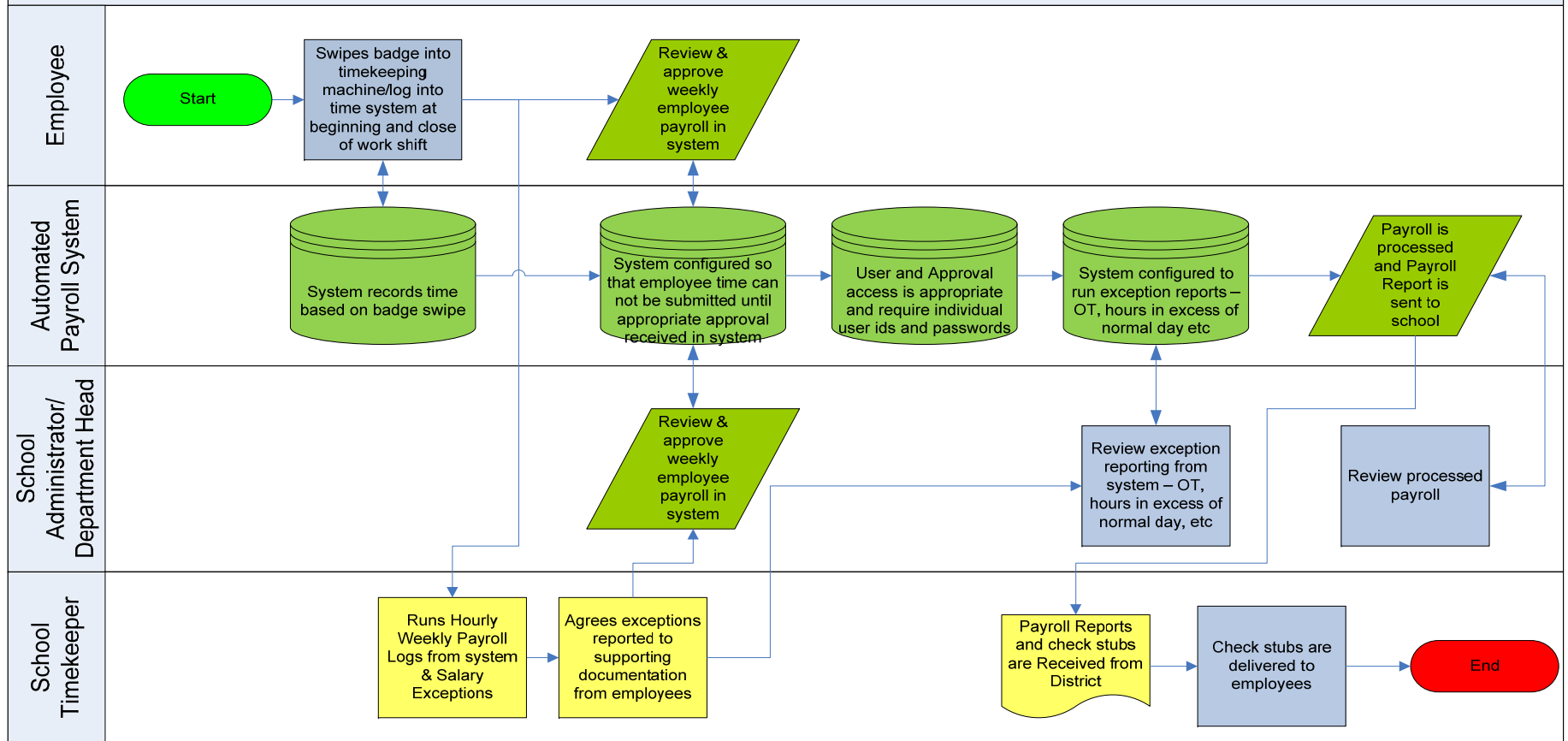- Record Hours on Timesheet / Log and signs off if Hourly

"Exceptions" are those hours that the employee does not work. For example, sick time, vacation, personal time. Since the system pre-populates the time based on the employee's status (FT or PT) only the exceptions to the hours are entered.

Legend:

Process Step	Automated Control	Manual Control	Gap

APPENDIX C

St. Johns County School Board – Timekeeping Process "Automated Best Practices"

Employee

Start

Swipes badge into timekeeping machine/log into time system at beginning and close of work shift

Review & approve weekly employee payroll in system

Automated Payroll System

System records time based on badge swipe

System configured so that employee time can not be submitted until appropriate approval received in system

User and Approval access is appropriate and require individual user ids and passwords

System configured to run exception reports – OT, hours in excess of normal day etc

Payroll is processed and Payroll Report is sent to school

School Administrator/ Department Head

Review & approve weekly employee payroll in system

Review exception reporting from system – OT, hours in excess of normal day, etc

Review processed payroll

School Timekeeper

Runs Hourly Weekly Payroll Logs from system & Salary Exceptions

Agrees exceptions reported to supporting documentation from employees

Payroll Reports and check stubs are Received from District

Check stubs are delivered to employees

End

Legend:			
Process Step	Automated Control	Manual Control	Gap

APPENDIX D

February 16, 2010

School Board of St. Johns County, Florida
40 Orange Street
St. Augustine, Florida 32084

Attention: Conley Weiss, Chief Financial Officer
                Lisa Fulks, Payroll Supervisor

Background

We were contacted by the School Board of St. Johns County ("District") to perform research related to treatment of time spent by nonexempt employees on jobs outside their primary job function. Thus, we specifically performed research to determine whether public employers are exempt from paying overtime for time their nonexempt employees spend serving as coaches (or other extracurricular roles) at District schools. We also performed research to determine what amount of payment to these nonexempt employees would meet the definition of a "nominal" fee. In addition, we provided guidance on how to determine whether an individual is an employee or an independent contractor for payroll reporting purposes.

Our research was primarily performed within the Code of Federal Regulations ("C.F.R."), specifically Title 29 (Labor), Chapter V (Wage and Hour Division, Department of Labor) and Part 553 (Application of The Fair Labor Standards Act ("FLSA") to Employees of State and Local Governments). We also reviewed the United States Code ("U.S.C.") Title 29 Section 213 to obtain the Department of Labor's definition of "incidental" which it adopted to define a "nominal" fee. Our analysis of our research is in the analysis section of this letter.

Volunteer Status Analysis

FLSA Exemption: Title 29 C.F.R. Sec 553. 100-106 states that individuals may perform volunteer service hours for units of State and local governments without being considered to be their employees during such hours for purposes of the FLSA. Thus the employer is exempt from paying overtime or wages for such employees as long as the time is spent volunteering. The definition of what constitutes to be a volunteer is provided as follows.

Volunteer Defined: 29 C.F.R. 553.101 (a) states that an individual who performs hours of service for a public agency for civic, charitable, or humanitarian reasons, without promise, expectation or receipt of compensation for services rendered, is considered to be a volunteer during such hours. This includes all nonexempt employees who volunteer as coaches, gate keepers, club advisors, athletic events score keepers, etc.

29 C.F.R. 553.101 (c) states that individuals shall be considered volunteers only where their services are offered freely and without pressure or coercion, direct or implied, from an employer.

29 C.F.R. 553.101 (d) states that an individual shall not be considered a volunteer if the individual is otherwise employed by the same public agency to perform the same type of services as those for which the individual proposes to volunteer.
  o 29 C.F.R. 553.103 defines "same type of services" as similar or identical services. For example, a basketball coach cannot volunteer as the football coach. However, a basketball coach can volunteer as a club advisor.

APPENDIX D

February 16, 2010
Page Two

Payment for Services: 29 C.F.R. 553.106 states that volunteers may be paid expenses, reasonable benefits, a nominal fee, or any combination thereof, for their service without losing their status as volunteers.

- o Expenses*:* 29 C.F.R. 553.106 (c) states that individuals would not lose their volunteer status because they are reimbursed for the approximate out of pocket expenses incurred incidental to providing volunteer services, for example, payment for the cost of meals and transportation expenses.

- o Benefits*:* 29 C.F.R. 553 106 (d) states that individuals do not lose their volunteer status if they are provided reasonable benefits by a public agency for whom they perform volunteer services. Benefits include group insurance plans (such as liability, health, life, disability, workers' compensation) or pension plans or "length of service" awards.

- o Nominal Fee: 29 C.F.R. 553 106 (e) states that individuals do not lose their volunteer status if they receive a nominal fee from a public agency. A nominal fee is not a substitute for compensation and must not be tied to productivity. For example, if a coach were paid more because the team won, the Department of Labor would consider such a "substitute for compensation" or "payment tied to productivity" because, in that instance the payment could be viewed as varying depending on the win-loss record of the team.

    The Department of Labor will consider a fee to be nominal if the fee paid to the individual does not exceed 20 percent of what the public agency would otherwise pay to hire a full-time individual to perform the same services. The Department of Labor adopted the "occasional and incidental" definition as stated in Title 29 U.S.C. 213 (c)(6)(G) as the "20 percent" rule which should be used to make the determination of whether a fee is considered to be nominal. For example, if you would typically pay a full time coach $35,930, which is the annual median wage for that position in the State of Florida per Bureau of Labor Statistics, a nominal fee would not exceed $7,186 ($35,930 * 20%).

Volunteer Status Conclusion
Based upon our analysis above, but subject to the general conditions below, we believe that there is a reasonable basis for the position that a public employer is exempt from paying overtime rates for time their nonexempt employees spend serving as coaches (or other extracurricular roles) at District schools as long as time is spent volunteering as described in our analysis. In addition, as long payment to the nonexempt employee is "nominal" as defined in our analysis, the volunteering status will not be compromised

February 16, 2010
Page Three

Employee versus Independent Contractor
Generally, an employee is any individual who performs services subject to the will and control of an employer, both as to what has to be done and how it is to be done. An independent contractor is any individual who renders services in the course of an independent occupation representing the will of his employer as to the result of his work and not as to the means by which it is accomplished. Payments made to employees are to be reported on a W2. Payments made to Independent Contractors are to be reported on a 1099 when the amount exceeds $600 in a calendar year. In addition, an independent contractor who receives a 1099 may deduct all expenses incurred against the 1099 income in their personal tax return.

Scenario 1:
A nonexempt employee spends time serving as the cheerleading coach.

> Treatment:
> As this employee is already an employee of the District, any supplemental reimbursement of expenses related to serving as the cheerleading coach should be included in that employee's W2. In addition, as long as payment to the nonexempt employee is "nominal" as defined in our analysis, the volunteering status will not be compromised.

Scenario 2:
An exempt employee spends time serving as the cheerleading coach.

> Treatment:
> Same as the treatment in scenario 1 above.

Scenario 3:
A local attorney serves as the high school coach.

> Treatment:
> This individual would be treated as an Independent Contractor. Thus, if payments in excess of $600 are made to this individual for reimbursement of expenses during a calendar year, a 1099 should be issued. In addition, as long as payment to the nonexempt employee is "nominal" as defined in our analysis, the volunteering status will not be compromised.

Scenario 4:
Individuals serving as summer camp coaches

> Treatment:
> Due to the structure and schedules associated with summer camps, individuals should be treated as employees and payments made to them should be reported on a W2. As defined above, the individual serving as a summer camp coach would be subject to the will and control of an employer, both as to what has to be done and how it is to be done.

February 16, 2010
Page Four

General Conditions

The analysis and conclusions expressed in this letter are subject to the following general conditions:

Applicable Law. Our analysis and conclusions relate solely to 29 C.F.R. Section 553.100-106 and 29 U.S.C. Section 213(c)(6)(G), all as of the date of this letter, and we have not addressed the tax consequences to you under any other Federal, state, local, or foreign tax law.

Changes in Law. Subsequent changes in the law, Code or applicable Treasury Regulations, or the issuance of new case or ruling authority, could materially and adversely affect our analysis and conclusions. Delivery of this letter is not an undertaking on our part to update this memorandum or advise you of any changes in law.

Issues Addressed. This letter is limited to an explanation of the law concerning the issues enumerated above, and it does not consider all of the issues that may arise in connection with time spent by nonexempt employees in extracurricular activities outside their primary job function. Our analysis and conclusions are limited to discussing the enumerated tax consequences to the addressee(s) arising from the amount of payment that may be given to a nonexempt employee who performs extracurricular functions outside his/her primary job function that would exempt the District from treating that individual as an employee for that time for purposes of FLSA. It is possible that there may be alternative interpretation that offers more favorable tax consequences. This letter is not an endorsement of any particular method nor is it a recommendation that any addressee proceed with any method described in this memorandum.

No Guarantee. Our analysis and conclusions are based upon our interpretation of the applicable law, regulations, and certain case and ruling authority as of the date of this letter. Some of these matters are not free from doubt, and our analysis and conclusions are not binding on the IRS, any state, local, or foreign tax authority, or on any court. Our analysis and conclusions are based upon our professional judgment, and are not a guarantee of the ultimate tax consequences described in this letter.

Possibility of Litigation. If the IRS or another tax authority adopts a position contrary to the analysis and conclusions in this letter, it might be necessary to pursue administrative appeals or litigation. Decisions of whether and how to pursue administrative appeals or litigation may be based on considerations of cost, publicity, and other matters unrelated to the technical merits of a tax position.

Reliance. This letter is rendered only for the benefit of the named addressee(s), and does not address the tax consequences to any other person or entity that is not an addressee. No person or entity other than the named addressee(s) may rely on this letter.

Disclaimer of Legal and Investment Advice. This letter represents our conclusions and analysis concerning tax issues. It does not constitute legal or investment advice. We recommend that you retain competent legal counsel and investment advisers to address legal and investment issues

Respectfully Submitted,

Theresa A. Burdine, CPA
Managing Director