



Florida Department of Transportation

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ANANTH PRASAD, P.E.
SECRETARY

June 27, 2011

Ananth Prasad, P.E.
Secretary
Department of Transportation
605 Suwannee Street
Tallahassee, Florida 32399-0450

RE: **Auditor General Report No. 2011-069**
Payroll and Personnel Administrative Processes at Selected State
Agencies

Dear Secretary Prasad:

As required by Section 20.055(5)(h), Florida Statutes, attached is the six month status report for the subject audit. The report details the implementation or current status of each recommendation.

If you have any questions, please call me at 410-5823.

Sincerely,

A handwritten signature in blue ink that reads "Robert E. Clift".

Robert E. Clift,
Inspector General

RC:tw

Enclosure

cc: Kathy DuBose, Staff Director
Joint Legislative Auditing Committee
JLAC@leg.state.fl.us

FLORIDA DEPARTMENT OF TRANSPORTATION

6-month Follow-up to the Office of the Auditor General's Payroll and Personnel Administrative Processes at Selected State Agencies July 1, 2008 through February 28, 2010 Report #: 2011-069

Finding No. 1: Time Record Submittal, Review, and Approval

Procedural deficiencies existed with respect to the monitoring of the timely submittal, review, and approval of employee time records.

Utilizing People First, employees are to complete and submit time records that reflect the number of hours worked and leave taken. People First user guides and training materials direct non-OPS employees to submit their time records at the end of their agency's payroll cycle. Once an employee has submitted a time record for a payroll cycle, the designated approver (usually the employee's immediate supervisor) is responsible for the review and approval of the time record. Any errors, omissions, or discrepancies in the attendance and leave reported by the employee are to be resolved by the supervisor and employee.

To assist managers in the identification of missing time records, People First collects weekly data on time records that have not been submitted, approved, or have been approved but require corrective action. Every other week, People First places this data in a cumulative *Missing Time Records* report that is e-mailed to each applicable agency's personnel office.

The *Missing Time Records* reports are made available to State agencies and may be used by each of the agencies to identify time records that have not yet been submitted, reviewed, or approved. Agencies may also use the reports to identify employees who may have been overpaid or underpaid. If overpayments are identified, agencies are to seek reimbursement from the applicable employees. If underpayments are noted, agencies may increase, by the amount underpaid, a subsequent payment to the employee or create a supplemental payment. Once time records are submitted and approved with no errors, the records will no longer appear on subsequent *Missing Time Records* reports.

We found that some additional uniformity in the policies of the individual agencies and some report enhancements would improve the functionality of and level of agency reliance on the *Missing Time Records* reports. Specifically:

- The *Missing Time Records* reports do not provide an aging schedule showing, for each applicable time record, the length of time between the payroll cycle end and the *Missing Time Records* report run date. Absent information showing the age of the exceptions, it was difficult for agencies to differentiate between routine and what may be more significant lengthy delays.
- The *Missing Time Records* reports do not identify the person responsible for approving the time records listed. Information identifying the approver would better facilitate management's monitoring of the processes associated with resolving the exceptions shown by the reports.
- Agency management indicated that inaccuracies had been noted in the *Missing Time Records* reports and, as a result, some agencies had implemented alternative methods for reviewing the timely submittal and approval of time records.

Time records are used to document employee attendance and use of leave, calculate overtime earnings, and adjust salary amounts due to leave without pay. Absent an effective means for monitoring, time records that have not been timely submitted or approved, or that have been approved with corrective actions required, may escape timely detection.

Recommendation: We recommend that State agencies should use such information to identify those employees whose time records frequently require corrective actions, are repeatedly missing, or are not timely approved and take appropriate corrective measures.

Audit Response:

Agree. Since the inception of People First, the Department developed and maintained a process documented in the Office of Comptroller Disbursement Operations Office (DOO) Payroll Processing Handbook to identify missing timesheets, notify responsible employees and managers and track resolutions. The recent upgrades to the People First system have made the system-generated Missing Timesheet Report significantly more accurate and reliable. A change in the Department's notification process has also resulted in more timely responses and submission of outstanding timesheets.

6-month Follow-up Response:

Management has made this a priority to resolve any remaining opportunities for improvement. This finding is considered closed by the FDOT comptroller.

Finding No. 2: Compensatory Leave Credits

Certain State employees may earn compensatory leave for hours worked in excess of the regular work period or during holidays, emergencies, and facility closures. DMS rules include provisions for the accumulation and payment of regular compensatory leave, FLSA special compensatory leave, and special compensatory leave credits. Certain collective bargaining agreements with employee bargaining units also include compensatory leave provisions. For example, the Florida Police Benevolent Association (FPBA) Security Services Bargaining Unit Agreement is applicable to DOC correctional officers and limits to a maximum of 240 hours the number of special compensatory leave credits that may be accumulated.

State agencies use People First to account for the various types of compensatory leave credits earned and used by employees. People First includes four compensatory leave time and attendance codes: regular compensatory leave, FLSA special compensatory leave, special compensatory leave, and special holiday compensatory leave. Periodic payments for accumulated leave credits and payments for unused compensatory leave credits upon an employee's separation are to be recorded in FLAIR using one of three codes: regular compensatory leave in lieu of overtime, special compensatory leave in lieu of overtime, or special compensatory leave.

Recommendation: State agencies should periodically review their employees' compensatory leave balances and identify employees who are accumulating large compensatory leave credit balances or whose compensatory leave credits are approaching the maximum limits set forth in applicable collective bargaining agreements. When appropriate, the agencies should compel the use of accumulated special compensatory leave credits prior to approving employee use of other leave types.

Audit Response:

Agree. Executive Management issued a directive in July 2009 requiring a review of Special Compensatory Leave balances and requesting a reduction of total department balances by 50% within a year. At the time of the directive the Department's balance was 45,760 hours. As of 11/25/2010, the balance was 27,357 hours, a decrease of 18,403 hours or 40%.

6-month Follow-up Response:

Sections 1.6 and 1.8 of department procedure 250-010-005, Excess Work Hours/Overtime addresses the accrual and usage of regular and special compensatory leave credits and will continue to be monitored by the Personnel Office. This finding is considered closed by the FDOT human resource manager.

Finding No. 3: Unused Annual and Sick Leave Payouts

To evaluate agency controls and to determine whether the unused annual and sick leave payouts were adequately supported, properly calculated, and paid in accordance with applicable laws and rules, we requested agency terminal leave payout policies and procedures for review and examined agency records for 51 terminal leave payouts, totaling \$469,932. The 51 payouts tested included: 10 payouts totaling \$109,116 at DACS, 9 payouts totaling \$70,169 at DOC, 5 payouts totaling \$38,250 at DEP, 9 payouts totaling \$134,120 at DFS, 3 payouts totaling \$53,198 at DMS, and 15 payouts totaling \$65,079 at DOT. Additionally, we reviewed documentation of any leave balance audits performed related to the 51 payouts to determine whether the agencies effectively ensured the proper calculation of the payouts.

We noted that:

- Five agencies (DACS, DOC, DEP, DMS, and DOT) had not established written terminal leave payout policies and procedures at the time of our audit request. DMS subsequently established written policies and procedures effective July 2009.
- For the 51 payouts tested:
 - Documentation for 15 terminal leave payouts totaling \$130,778 was not available to evidence that an audit of the leave balances, including identification of prior leave payments, was completed prior to payment. These 15 payouts included 5 payouts totaling \$58,096 at DACS, 3 payouts totaling \$12,353 at DOC, 2 payouts totaling \$47,506 at DMS, and 5 payouts totaling \$12,823 at DOT.

Under certain circumstances, the implementation and communication of written policies and procedures may better ensure the calculation of payment amounts that are consistent with the requirements of law.

Recommendation: We recommend that each State agency's procedures be enhanced, as appropriate, to address the terminal leave payout process. Such enhancements should require the performance of leave balance audits prior to processing terminal leave payouts, and documentation of such audits should be retained. We also recommend that State agencies take other appropriate steps, including independent verification of payout calculations, to ensure that terminal leave payouts are accurate and paid in accordance with applicable laws, rules, and guidelines.

Audit Response:

Agree. The Department is using all resources available in the People First system to validate terminal leave payouts. The DOO Payroll Processing Handbook, which includes a section on processing terminations and leave payouts, was available and submitted to Auditor General staff as requested on 3/25/2009. The termination section includes guidance requiring a review of the previously paid leave report from the Bureau of State Payrolls, along with ensuring no timesheets are outstanding in People First. The final leave balances as shown in People First are used for eligible payments and are adjusted for any previous leave payouts or required prorations for SES/SMS employees. The People First System does not permit a review of timesheets or leave records from beginning of employment (only the previous 18 months are available to be viewed in People First).

6-month Follow-up Response:

The DOO Payroll Processing Handbook has been updated to address this finding. This finding is considered closed by the FDOT comptroller.

Finding No. 4: Dual-Employment Rules and Guidelines

In addition to the guidance in DMS rules and Guidelines, four of the six State agencies included within the scope of this audit had established agency dual-employment policies and procedures requiring that a dual-employment request form be initiated by the employee and approved by agency management. While all four of these agencies' policies and procedures required that the approval be performed during each fiscal year, the policies and procedures varied

regarding the State employers for which dual-employment approval was required. For example, the DEP and DACS policies and procedures required that a form be completed and approved for dual employment for both SPS and non-SPS State entities, such as the State University System, while the DMS agency policies and procedures restricted the use of such a form to employment at SPS agencies. DFS policies and procedures required that a form be completed and executed for “employment by more than one State agency” but did not define a “State agency” or differentiate between non-SPS and SPS agencies.

Absent guidance that clearly indicates when dual-employment approval is required, State agencies may not ensure that employees submit for agency approval requests for dual employment as required by State law. Lack of such guidance may have contributed to the instances noted in finding No. 5 in which proper approval for dual employment was not obtained and documented.

Recommendation: We recommend that DMS and the various State agencies establish or revise dual-employment policies and procedures to ensure that approval during each fiscal year is obtained by any employee seeking employment at, or compensation from, more than one State agency. To ensure compliance with State law, such policies and procedures should clearly address both the simultaneous compensation from any appropriation other than the appropriations for salaries and the simultaneous compensation from any State agency or the judicial branch of State Government.

Audit Response:

Agree. A Policy Document on “Dual Employment Guidelines and Procedures for State Personnel System Agencies” was issued by the Department of Management Services in June 2009. This policy delegates dual employment approvals to agencies that are within the “State Personnel System (SPS).”

6-month Follow-up Response:

FDOT has implemented the DMS issued policy. This finding is considered closed by the FDOT human resource manager.

Finding No. 5: Dual-Employment Approvals and Management of Dual-Employment Activities

Dual-employment rules and guidelines were not sufficient to effectively promote compliance with State law. There is not an established mechanism for State agency use that identifies those employees simultaneously receiving compensation from more than one State employer. Accordingly, to determine whether the listings provided by the agencies included approvals for all employees who had simultaneously received compensation from more than one State employer during the period July 2007 through January 2009, we performed analytical procedures of FLAIR payroll data to detect potential instances of dual employment. For the six agencies included within the scope of this audit, we identified 1,008 employees for whom it appeared there were instances of dual employment.

Absent a mechanism that identifies those employees simultaneously receiving compensation from more than one State employer, agencies cannot be assured that their employees always properly submit dual-employment requests for management approval. In addition, absent documentation of the proper approval of dual employment, State agencies cannot demonstrate that an employee’s compensation was commensurate with the employee’s assigned duties, there was a need for the employee to hold more than one position with the State, or the employment did not give rise to the appearance of a conflict of interest or otherwise violate legislative intent. Further, absent a listing or other complete record of employees approved for dual employment, an agency cannot demonstrate that the dual-employment activities of all applicable employees have received appropriate consideration in accordance with State law and DMS rules and Guidelines or that an appropriate method for calculating applicable overtime pay has been devised.

Recommendation: We recommend that State agencies take appropriate steps to ensure that dual-employment requests are properly submitted and approved and that comprehensive records documenting all dual-employment approvals be maintained. In addition, we recommend that DMS and DFS, in conjunction with the other State agencies, create a mechanism (e.g., a People First or FLAIR report) to identify those employees who simultaneously receive compensation from more than one State employer.

Audit Response:

Agree. DOT Procedure no. 250-040-010-e relating to Dual Employment is currently being updated to reflect the policy changes by the Department of Management Services (DMS); however, approval process within the department (as stated in the current procedures) will continue to apply. Additionally, the policy document issued by DMS provides that employees who in the past have requested approval to work as OPS for the State University System will no longer require this approval. Specifically, the policy states the following; “The provisions of this guideline do not apply to employment with any government employer outside the SPS or any private sector employer.”

6-month Follow-up Response:

The FDOT process now reflects the DMS policy as updated in June 2009. This finding is considered closed by the FDOT human resource manager.

Finding No. 6: Salary Payment Calculations

We tested 540 salary payments totaling \$1,109,967 to determine whether the payments were properly calculated, approved, and supported by authorized sufficient time records. For the 540 salary payments tested, the agencies included within the scope of this audit generally made employee salary payments in the correct amounts based on the number of hours recorded as worked, approved rate of pay, and effective dates of any pay rate changes. However, we identified 11 salary payment errors (7 overpayments and 4 underpayments). The amounts paid in error ranged from an overpayment of \$626 to an underpayment of \$901. Specifically, we noted:

- One error for the 84 DOT salary payments tested. DOT overpaid one employee by \$626 as the employee separated from DOT in the middle of the payroll period but was paid based on 80 hours rather than the 40 hours recorded as worked.

Each of the instances noted above resulted from State agency payroll change processing. When payroll changes are processed, additional care should be taken to ensure that the changes are timely made considering the effective date of the change and that the changes made agree with the supporting authorization and time records. Subsequent to our audit inquiries, the agencies began taking actions to resolve the errors noted above.

Recommendation: State agencies should take appropriate measures to ensure that salary payments are accurately calculated based on the applicable rate of pay and actual hours worked. Such measures may include, for all payroll changes, an additional review of the calculations and supporting documentation prior to salary payment issuance.

Audit Response:

Agree. A series of reports, including total pay period transactions, leave without pay and overpayments, is reviewed by the Payroll Office approximately four business days prior to the warrant date. Any evident overpayments can be cancelled during this window. The referenced overpayment resulted because the Personnel and Payroll Offices were not notified of the employee’s termination until after the date the warrant could have been cancelled. Overpayments of this type cannot be eliminated through the report review process. The overpayment was immediately recovered by deducting the amount from the employee’s leave payout.

6-month Follow-up Response:

FDOT has processes in place and uses all available reporting tools to address overpayments. This finding is considered closed by the FDOT comptroller.

Finding No. 8: Salary Payment Cancellations

According to FLAIR records, for the six State agencies included within the scope of this audit, during the period July 2007 through January 2009, there were 2,722 salary payment cancellations, totaling \$1,937,409.

State agencies did not always timely initiate efforts to collect overpayments made to third parties as a result of canceled salary payment warrants or electronic funds transfers (EFTs).

Our tests of 60 salary payment cancellations totaling \$93,220 disclosed that agency controls needed improvement to ensure the timely initiation of overpayment recovery efforts and proper destruction of canceled paper warrants. Specifically, we noted:

- State agencies did not always timely initiate third-party overpayment recovery efforts. State employees may voluntarily authorize deductions from their gross pay be made and paid to third parties such as medical, dental, and life insurance providers; charitable organizations; and the State’s Deferred Compensation Program investment providers. Although the dollar amounts for individual deductions may not be significant, the volume of these transactions may be great. Regarding third-party overpayments, we noted that:
 - The Payroll Preparation Manual did not include specific guidance for recovering from third parties any overpayments resulting from salary payment cancellations.
 - Of the 60 salary payment cancellations tested, 17 reflected a total of 41 separate voluntary deductions ranging from \$1 to \$350 and totaling \$1,724. For 9 of the 41 deductions, the agencies had not taken timely action to recover from the third parties the amounts paid. These 9 deductions (one each for the employees of DACS, DOC, and DEP for \$3, \$24, and \$18, respectively, and 6 at DOT totaling \$73) totaled \$118. Although the dates for these canceled payments ranged from February 2008 through October 2008, the agencies’ recovery efforts were not initiated until subsequent to our audit inquiries in April 2009.

Absent timely and appropriate efforts to collect overpayments made to third parties and the proper destruction of canceled paper warrants the State’s exposure to loss may not be sufficiently limited.

Recommendation: We recommend that when canceling salary payments, State agencies take appropriate action to timely recover from third parties any amounts overpaid.

Audit Response:

Agree. The DOO Payroll Processing Handbook was updated to include more detailed instructions for collection of miscellaneous deductions from vendors and state pretax deductions. Guidance was given to all district Payroll Offices at the 2009 Financial Administration Meeting. Since then, Quality Assurance Reviews have been conducted in all districts and all deductions have been appropriately collected.

6-month Follow-up Response:

The DOO Payroll Processing Handbook was updated to address requirements and specific training was conducted in April 2009. This finding is considered closed by the FDOT comptroller.