

Payroll Audit

Audit Report 201314-11

June 30, 2014

Executive Summary

Chapter 110, Florida Statutes, (F.S.), establishes the state's employment policy and provides requirements and guidelines relevant to the state employee payroll and administrative personnel processes. Payroll is one of the largest expenses incurred by the Department; with approximately 4,200 members receiving compensation over \$20 million monthly.

The Department's Bureau of Personnel Services is responsible for the administration of all aspects of personnel rules, regulations, policies, and procedures as they relate to members and applicants. The Office of Payroll Services is responsible for ensuring Department members are paid accurately and maintaining personnel data in People First.

The purpose of this audit was to evaluate the internal controls and processing of the Department payroll in August, September, and October 2013, to include occurrence and existence, completeness, and accuracy.

Our audit identified the following issues which require management attention:

- The Office of Payroll Services did not timely identify or initiate recovery of salary overpayments during August-October 2013;
- The Bureau of Personnel Services did not accurately, timely, or properly document Worker's Compensation leave adjustments;
- The Bureau of Personnel Services did not retain approved People First Security Agreements; and
- Members had People First access privileges that were not necessary for their job duties.

Background and Introduction

Payroll is one of the largest expenses incurred by the Department; with approximately 4,200 members receiving compensation over \$20 million monthly. Chapter 110, F.S., establishes the state's employment policy and provides requirements and guidelines relevant to the state employee payroll and administrative personnel processes.

The Department uses a payroll-by-exception model in which members, excluding other personnel services (OPS) members, are paid a fixed gross amount for each payroll cycle unless the amount is altered. This model assumes, absent any payroll action to the contrary, that a member worked or used available leave for the required number of hours in the pay period. Salary payments are processed before attendance records are submitted and approved by a supervisor. Section 110.219(4), F.S. requires the Department to maintain accurate records of all hours worked and leave approved for each member.

The Department uses People First, a self-service, online Human Resource Information System, to maintain personnel information for all authorized and established positions and to perform human resource functions. The key components of People First include attendance and leave, member benefits, human resource management, organizational management, payroll administration, and staffing. While the Department of Management Services is the functional owner of People First, the self-service functionality of the system is at the state agency and employee level.

To facilitate the generation of salary payments, People First interfaces with the Department of Financial Services' (DFS) Florida Accounting Information Resource Subsystem (FLAIR) payroll component. The DFS Bureau of State Payrolls is responsible for certain centralized payroll functions such as paying state employees, remitting tax and retirement contributions, maintaining official FLAIR payroll records, and auditing state agencies payroll-related processes.

The DFS Bureau of State Payrolls developed a detailed payroll preparation manual to provide state agencies with instructions for preparing and submitting payroll and employee data, as well as schedules, tables, and codes used in the FLAIR payroll component. According to DFS, the payroll preparation manual is to serve as the administrative authority in the absence of specific rules to the contrary.

The Department's Bureau of Personnel Services is responsible for the administration of all aspects of personnel rules, regulations, policies, and procedures as they relate to members and applicants. The Department's Office of Payroll Services is responsible for ensuring members are paid accurately and maintaining personnel data in People First.

Department Policy 5.11, *Pay Policy and Personnel Actions*, requires that all actions affecting a member's pay are reviewed and properly authorized by the appropriate division director or assistant division director using a Personnel Action Request (PAR) form prior to implementation. Additionally, approval for pay increases must be requested using a Classification and Compensation Review Form with required support documentation.

A member's regular salary payment may be impacted or need to be adjusted for a number of reasons; including Workers' Compensation and Leave Without Pay (LWOP).

A member who sustains a job-related disability that is covered under the state's Workers' Compensation policy, Chapter 440, F.S., will receive full pay for up to 40 work hours without being required to use accrued leave, beginning immediately after the injury. Workers' Compensation leave may be used intermittently to cover appointments to health care providers, physical therapy, and similar activities, provided these activities are directly related to the member's injury. A member who returns to work and has exhausted the 40 hours of disability leave may be granted up to an additional 48 hours of disability leave for follow-up examinations or treatment, if required by an authorized treating physician.

If, as a result of the injury, the member is unable to resume work at the end of the 40 hour period, the member may continue receiving Workers' Compensation coverage on Temporary Total Disability status. Section 440.15(2)(a), F.S., requires temporarily disabled members to be compensated at two-thirds of their average weekly wages.

In order for a member on temporary total disability to receive full pay, the member may elect to use accrued sick, compensatory, or annual leave to cover the remaining one-third of their average weekly wages. If the member elects not to use accrued leave, or after the member has exhausted all earned leave, the member is placed on leave without pay and reverts to receiving Workers' Compensation at two-thirds of their average weekly wages as required in Section 440.15(2)(a), F.S. A member covered by Workers' Compensation continues to earn and accrue full leave credits.

Rule 60L-34.0061(1)(b), Florida Administrative Code, (F.A.C.), specifies that in no case shall the member's salary and Workers' Compensation benefits exceed the amount of the member's regular salary payment. The Office of Payroll Services and the Attendance and Leave Office track and update an electronic spreadsheet that calculates the amount of leave time a member may use in order to receive their full salary amount. The Attendance and Leave Office is responsible for recalculating and adjusting leave credits in People First in order for the leave used to match the salary paid by the Department.



A member may also request to use LWOP to cover any absence from work as allowed by Chapter 60L-34, F.A.C. The Bureau of Personnel Services relies on supervisors to inform the Office of Payroll Services when members are approved to use LWOP.

If LWOP is detected prior to payroll cutoff, payroll staff can adjust the member's salary to avoid a possible overpayment. However, because the Department is on a payroll by exception system, detecting LWOP most often occurs after payroll cutoff, when a member is already authorized for a full salary payment instead of an adjusted payment taking into account the hours of LWOP. The Office of Payroll Services reviews approved timesheets every two weeks for LWOP occurrences; verifying possible sick leave donations with the Attendance and Leave Office, and notifying members by email of overpayments as a result of LWOP hours.

Overpaid members are given the option to pay back the net amount, or have the net amount deducted from their next salary warrant. Members can contest the alleged overpayment according to Section 120.57, F.S.

Findings and Recommendations

Overpayments

The DFS Bureau of State Payrolls, *Payroll Preparation Manual*, requires the Department to identify and prevent salary overpayments, promptly notify members of overpayments when they occur, collect overpayments in a timely manner, and adjust pay records by processing salary refunds.

The *Payroll Preparation Manual* further requires that salary refunds should be collected and approved no later than December 31st of the year in which the overpayment was made to ensure a member's pay records and W-2 are correct, and that tax dollars are restored to the agency accounts.

We reviewed a sample of salary payments made from August-October 2013 and noted the following overpayments that were not timely recovered:

- One instance where 113 hours of LWOP was not detected and the member received their full monthly salary of \$3,654.96 for October 2013, an overpayment of \$2,244.62. Upon audit inquiry, the Office of Payroll Services stated they would contact the member and initiate recovery of the overpayment.
- One instance of a retroactive payment that was not properly canceled, resulting in an overpayment of \$571.08. Upon audit inquiry, the Office of Payroll Services stated they would contact the member and initiate recovery of the overpayment.
- One instance where a member was paid for their full October 2013 salary even though the member resigned on October 25, 2013, an overpayment of \$497.70. Upon audit inquiry, the Office of Payroll Services stated they would contact the former member and request reimbursement.
- One instance where a member was paid twice for the same compensatory leave; once on September 16, 2013 and again on September 30, 2013, causing an overpayment of \$128.70. Upon audit inquiry, the Office of Payroll Services stated they would contact the member and initiate recovery of the overpayment.
- One instance where a timesheet error caused an overpayment of \$5.66 in August 2013. Upon audit inquiry, the Attendance and Leave Office contacted the member's supervisor to update his August 2013 timesheet, and the member was notified of the \$5.66 overpayment. The overpayment was collected from the member's December 2013 paycheck.

Not collecting and processing overpayments in a timely manner may cause a member's pay records and W-2 to be incorrect and may cause the Department to be unable to recoup overpayments and payroll taxes.

Finding 1

The Office of Payroll Services did not timely identify or initiate recovery of salary overpayments during August-October 2013.

Recommendations

We recommend the Bureau of Personnel Services ensure the salary overpayments identified are recovered.

We also recommend the Bureau of Personnel Services ensure overpayments are collected in a timely manner according to the DFS Bureau of State Payrolls Payroll Processing Manual.

Management Response

We agree with the recommendation to ensure salary overpayments are identified and recovered. The Bureau has taken action by assigning a designated member of the payroll staff to conduct spot checks on retroactive payments and leave payouts to confirm their validity. The Payroll Services Manager will also be required to review/finalize monthly leave without pay reports and to ensure timely collection of all salary overpayment notices.

Workers' Compensation

Section 110.219(4), F.S., requires the Department to maintain accurate records of all hours worked and leave approved for each employee.

Rule 60L-34.0061(1)(b), F.A.C., precludes members from receiving regular salary and Workers' Compensation benefits which are greater than what the member would receive from a normal salary payment. Additionally, it allows members to elect to use accrued sick, compensatory, or annual leave in an amount necessary to receive full pay. The member's annual hourly rate (annual salary/2080 hours) must be used to determine the number of leave hours needed to supplement the Workers' Compensation payments.

When a member elects to use accrued sick, compensatory, or annual leave, the Bureau of Personnel Services must recalculate and adjust leave credits in order for the leave used to exactly match the salary paid by the Department.

During our review of salary payments and the associated leave adjustments for eight members on Workers' Compensation, we noted the following:

- For seven members, the leave adjustments were not properly documented; including conflicting documentation and adjustments with no documentation.
- Of the seven cases not properly documented, it appears one member may not have had enough leave at the time to support the payment they received from the Department.
- For one member, the sick leave balance was incorrectly adjusted instead of the annual leave balance as recorded on the member's timesheet.
- For another member, the member's leave balance was adjusted, but the member's People First timesheet did not reflect any leave had been used.
- For five members, the contracted hourly rate (exact number of work hours in the month) was incorrectly used instead of the annual hourly rate (average number of work hours in the month, 173.33) to calculate the members' hourly rate of pay for adjusting leave balances.
- For seven members, the leave balance was not timely adjusted (2 to 6 months later) to reflect the leave hours required to cover the members' full monthly salary; including three members whose leave was not adjusted at the time of review.
- We also noted that leave adjustments were not made monthly as required by the Department's Salary and Leave Statements Process Instructions.

Without a reliable, accurate, and timely process for adjusting member leave balances related to Workers' Compensation, the Department cannot ensure that members have sufficient leave to support the payments and cannot document adjustments to leave balances.

Finding 2

The Bureau of Personnel Services did not accurately, timely, or properly document Worker's Compensation leave adjustments.

Recommendations

We recommend the Bureau of Personnel Services review and correct the leave adjustments for the members identified to ensure that the members had sufficient leave to support the salary payments they received.

We also recommend the Bureau of Personnel Services revise leave adjustment procedures to include:

- Staff responsible for making and approving leave adjustments;
- Time frames for when leave adjustments are to be completed;
- How to properly document any adjustments that are made;
- How to properly calculate the number of hours needed to cover salary payments; and
- Where the final documentation will be kept.

Additionally, we recommend the Bureau of Personnel Services establish a review process to ensure members receiving Workers' Compensation benefits who elect to use accrued sick, compensatory, or annual leave to supplement their remaining wages, have leave in an amount necessary to match the salary paid by the Department.

Management Response

We agree with the recommendations and have started reviewing and correcting the leave adjustments for the identified members. The bureau has also revised procedures pertaining to the salary leave adjustment process to include the bulleted items listed above. All final documentation will be kept in the members workers' compensation file. Additionally, the bureau has established a review/audit process of all salary leave adjustments to ensure members have sufficient leave to support payments.

People First Security Agreements

The Bureau of Personnel Services requires Department members to complete a People First Security Agreement prior to authorizing access to certain information in People First; including full update access.

Full update access allows the user to view and update data; including timesheet entry and approval, work schedules, benefits, home address, mailing address, social security numbers, retirement, performance valuations, supplemental pay, and one-time regular pay. Signed agreements are to be maintained in the member's personnel file.

During our review of 46 members with full update access, we noted People First Security Agreements were not maintained for 17 of the 46 members. Additionally, for the 29 agreements maintained in personnel files, 3 were not signed by the Human Resources Security Officer.

Subsequent to our audit inquiry, The Bureau of Personnel Services obtained People First Security Agreements for 15 of the 17 members and removed access for the other two members; one member who was separating from the Department and one member who no longer needed access.

Without maintaining an approved People First Security Agreement, the Bureau of Personnel Services cannot ensure that proper approval was given for access to confidential and non-confidential information in the People First system or document members were aware that misusing the People First system may result in disciplinary action.

Finding 3

The Bureau of Personnel Services did not retain approved People First Security Agreements.

Recommendation

We recommend the Bureau of Personnel Services ensure People First access control records are retained.

Management Response

We agree with the recommendation and have set up biannual audits to confirm People First Security Access forms are maintained in personnel files.

People First Security Privileges

Rule 71A-1.007(3), F.A.C., states members shall be allowed access to agency IT resources based on the principles of "least privilege," the principle that individuals are authorized to access only specific information needed to accomplish their individual job duties.

Our review of 46 Department members with full update access to People First identified five users had access privileges that were not necessary for their job duties, including one member for whom a signed People First Security Agreement was not maintained in their personnel file. Upon audit inquiry, payroll staff removed the security role code access for the member.

Department personnel who have access to this information are responsible for ensuring that they only access member data for a legitimate business purpose, and that they maintain the integrity of any confidential information accessed. Members should only view information or data they have a legitimate business reason for accessing in the performance of their duties.

Finding 4

Members had People First access privileges that were not necessary for their job duties.

Recommendation

We recommend the Bureau of Personnel Services perform periodic reviews of People First access privileges to ensure that users and access privileges are authorized and remain appropriate.

Management Response

We agree with the recommendation and have scheduled monthly meetings with “key” members in the Bureau to review access privileges in People First.

Purpose, Scope, and Methodology

The purpose of this audit was to evaluate the internal controls and processing of the Department payroll to include occurrence and existence, completeness, and accuracy.

The scope of this audit included payroll transactions and personnel actions taken in August, September, and October 2013.

The methodology included:

- Reviewing salary payments and tracing to personnel files, People First, and FLAIR records;



- Reviewing salary payment cancellations;
- Reviewing salary payments to separated members;
- Reviewing and evaluating the Department's controls for identifying and processing leave without pay occurrences;
- Reviewing and evaluating the Department's controls for identifying and processing Workers' Compensation occurrences;
- Reviewing Personnel Action Request Forms;
- Reviewing salary adjustments made in coordination with the legislative mandated October 1, 2013, salary increase;
- Reviewing payroll system access controls;
- Reviewing applicable laws, policies, and regulations; and
- Interviewing appropriate Department staff.

Distribution, Statement of Accordance, and Project Team

Distribution

Terry L. Rhodes, Executive Director
Terry Stepp, Chief of Personnel Services

Copies distributed to:

Diana Vaughn, Deputy Executive Director
Leslie Palmer, Chief of Staff
Jim McCallister, Director of Workforce Programs
Matt Higgins, Office of Payroll Services Manager
Karen Austin, Benefits and Member Services Manager

Melinda M. Miguel, Chief Inspector General
David W. Martin, Auditor General

Statement of Accordance

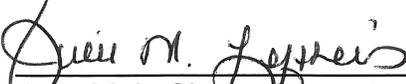
Section 20.055, Florida Statutes, requires the Florida Department of Highway Safety and Motor Vehicles' Inspector General to review, evaluate, and report on policies, plans, procedures, accounting, financial, and other operations of the Department and to recommend improvements. This audit engagement was conducted in accordance with applicable *International Standards for the Professional Practice of Internal Auditing* published by the Institute of Internal Auditors and *Principles and Standards for Offices of Inspector General* published by the Association of Inspectors General.

Project Team

Engagement conducted by:
Megan Frink, Auditor
Erin Mook, Auditor

Under the supervision of:
David Ulewicz, Audit Director

Approved by:


Julie M. Leftheris, Inspector General

ATTACHMENT - Management Response



Terry L. Rhodes
Executive Director

2900 Apalachee Parkway
Tallahassee, Florida 32399-0500
www.flhsmv.gov

MEMORANDUM

DATE: June 30, 2014
TO: David Ulewicz, Audit Director
FROM: Terry Stepp, Chief of Personnel Service *TS*
SUBJECT: Management Response to the Payroll Audit (201314-11)

The following is our response to the findings and recommendations presented in the report.

Finding 1- Overpayments

The Office of Payroll Services did not timely identify or initiate recovery of salary overpayments during August-October 2013.

Recommendations

We recommend the Bureau of Personnel Services ensure the salary overpayments identified are recovered.

We also recommend the Bureau of Personnel Services ensure overpayments are collected in a timely manner according to the Bureau of State Payrolls Payroll Processing Manual.

Management Response

We agree with the recommendation to ensure salary overpayments are identified and recovered. The Bureau has taken action by assigning a designated member of the payroll staff to conduct spot checks on retroactive payments and leave payouts to confirm their validity. The Payroll Services Manager will also be required to review/finalize monthly leave without pay reports and to ensure timely collection of all salary overpayment notices.

• Service • Integrity • Courtesy • Professionalism • Innovation • Excellence •
An Equal Opportunity Employer

Finding 2- Workers' Compensation

The Bureau of Personnel Services did not accurately, timely, or properly document Worker's Compensation leave adjustments.

Recommendations

We recommend the Bureau of Personnel Services review and correct the leave adjustments for the members identified to ensure that the members had sufficient leave to support the salary payments they received.

We also recommend the Bureau of Personnel Services revise leave adjustment procedures to include:

- Staff responsible for making and approving leave adjustments;
- Time frames for when leave adjustments are to be completed;
- How to properly document any adjustments that are made;
- How to properly calculate the number of hours needed to cover salary payments; and
- Where the final documentation will be kept.

Additionally, we recommend the Bureau of Personnel Services establish a review process to ensure members receiving Workers' Compensation benefits who elect to use accrued sick, compensatory, or annual leave to supplement their remaining wages, have leave in an amount necessary to match the salary paid by the Department.

Management Response

We agree with the recommendations and have started reviewing and correcting the leave adjustments for the identified members. The bureau has also revised procedures pertaining to the salary leave adjustment process to include the bulleted items listed above. All final documentation will be kept in the members workers' compensation file. Additionally, the bureau has established a review/audit process of all salary leave adjustments to ensure members have sufficient leave to support payments.

Finding 3- People First Security Agreements

The Bureau of Personnel Services did not retain approved People First Security Agreements.

Recommendation

We recommend the Bureau of Personnel Services ensure People First access control records are retained.



Management Response

We agree with the recommendation and have setup biannual audits to confirm People First Security Access forms are maintained in personnel files.

Finding 4- People First Security Privileges

Members had People First access privileges that were not necessary for their job duties.

Recommendation

We recommend the Bureau of Personnel Services perform periodic reviews of People First access privileges to ensure that users and access privileges are authorized and remain appropriate.

Management Response

We agree with the recommendation and have scheduled monthly meetings with “key” members in the Bureau to review access privileges in People First.

Cc: Julie M. Leftheris, Inspector General