Department of Education

Internal Audit

Payroll Review

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Department of Education
Payroll Review

Executive Summary

AUDIT OF:	**DATE:**	**AUDIT RATING:**
Payroll Review	Fieldwork performed January 2014 – March 2014	Acceptable **[ ]** Marginal **[X]** Unacceptable **[ ]**

INTRODUCTION:
In connection with the Department of Education's (DOE) Re-Assessment of Risk Assessment and Internal Audit Plan approved on June 4, 2013, Internal Audit (IA) performed a *"Payroll Review."* The purpose of this project was to review, evaluate, and test the design and operating effectiveness of the payroll process for employees within the Department; assess the Department's compliance with internal policies and procedures; and provide recommendations based on leading practices to improve the efficiency and effectiveness of the payroll processes.

BACKGROUND:
Payroll is one of the biggest expenditures for the DOE totaling over $970,000,000 during fiscal year 2013 for approximately 23,000 salaried employees. Most of the payroll processes are handled by the Payroll and Operations Section in the Office of Fiscal Services (OFS). However, schools/state offices, the Office of Information Technology Services (OITS) and the Office of Human Resources (OHR) also contribute to the payroll processes.

Payroll changes (hiring, edits, and resignations/terminations) are initiated by the Records and Transactions Section (RTS) in OHR. These changes are documented on a "Notification of Personnel Action Form" (Form 5) or previously called Form SF-5. The Form 5 is generated through eHR, DOE's human resources information system and is sent to the Payroll Section for processing. Based on the information on the Form 5, the payroll clerks update the "Payroll Master Record" (Form 404A) / "DOE Payroll Mastercard" (RS 02-0082). The "Payroll Master Record" / "DOE Payroll Mastercard" are also known as payroll cards, which are 5 x 8 index cards that contain payroll related information for each employee. The payroll clerks then manually update the Department of Accounting and General Services (DAGS) "Payroll Change Schedules" (PCS) and initial the Form 5's to indicate that they were processed. The Claims Pre-Audit Supervisor reviews and signs the revised PCS for completeness and sends them to DAGS for data entry into the State Wide Payroll System. Once DAGS process the PCS, DAGS will send the revised PCS back to DOE to be used for the next pay period. Upon receipt of the PCS, payroll clerks will perform a review to ensure that the revised PCS agrees to the payroll cards. Payroll checks, check stubs, and check statements are also sent with the PCS to Payroll for distribution.

Leave without pay (LWOP) also plays a role in the payroll process. Reasons for LWOP include, but are not limited to, department directed leave, family leave, strike or unauthorized leave, and the exhaustion of earned leaves. LWOP is initiated by the school/office. LWOP is requested and approved on the "Application for Leave of Absence" (Form DOE G-1) for classified employees and "Application for Leave of Absence - Certificated School-Level Employees" (Form DOE OHR 300-001) for certificated employees. LWOP hours are also entered into the Time & Attendance (T&A) system, DOE's timekeeping system. Once the LWOP request forms are approved, schools and offices are required to submit the original form to the respective Personnel Regional Officer (PRO) or Assistant Superintendent (AS). The PRO or AS, after approval action, is required to send the form to RTS in OHR. From there, RTS will generate a Form 5 to record the LWOP and the process flow continues as previously discussed. If the LWOP request forms are disapproved, the forms will be filed away at the school/office.

Executive Summary

Pay dates are the 5th and 20th of every month and payroll is paid in accordance with the following pay schedules:

- Lag Schedule: Anyone hired before July 1, 1998 or 10-month employees (teachers) get paid on a lag schedule. These employees get paid five days after the last day of the pay period so if they worked July 16th – July 31st, they would get paid on August 5th. However, for a newly hired teacher's first paycheck, payment is made after the first "full" pay period they worked.

- After the Fact (ATF) Schedule: All other employees get paid on the following pay period, so if they worked July 16th – July 31st, they would get paid on August 20th.

Priority payroll is available to provide advance payment to an employee after it is determined that the employee's personal circumstances justify priority payment before the succeeding pay day. A priority payment is not a payroll payment, but is a loan on account of compensation already earned, to be repaid by the employee (usually deducted from the employee's next paycheck.) Some reasons include: school/office error, delay in OHR certification, payroll error, employee delay, technical problem, funding delay, and working before hiring papers were processed.

Overtime may be granted to employees with proper approvals. For overtime that is not for Call Backs, Use of Facilities, or Resident Custodian, a "Request for Overtime" (Form BP-2) is required prior to the date of the overtime. This form, along with the "Individual Time Sheet" (Form D-55), needs to be sent to Payroll for processing. For overtime from Call Backs, Use of Facilities, and Resident Custodian, only a Form D-55 needs to be submitted to Payroll. Also for increase in hours for part-time employees, only a Form D-55 needs to be submitted to Payroll. The employee is compensated for the overtime/increase in hours in the following two pay periods plus the five day lag, as these types of payments require additional adjustments.

For temporary assignments, a "Notification of Temporary Assignment" (Form SF-10), needs to be sent to Personnel then forwarded to Payroll for processing. The employee is compensated for the temporary assignment in the following two pay periods plus the five day lag, as these types of payments require additional adjustments.

Lost/Stolen payroll checks can be replaced if it has not been endorsed or if it was not cashed by the expiration date of the check. The employee must contact the Payroll office to get a replacement check. Escheated checks should be mailed back to the Payroll office along with a reason explaining why it needs to be replaced and an address where the replacement check should be mailed to.

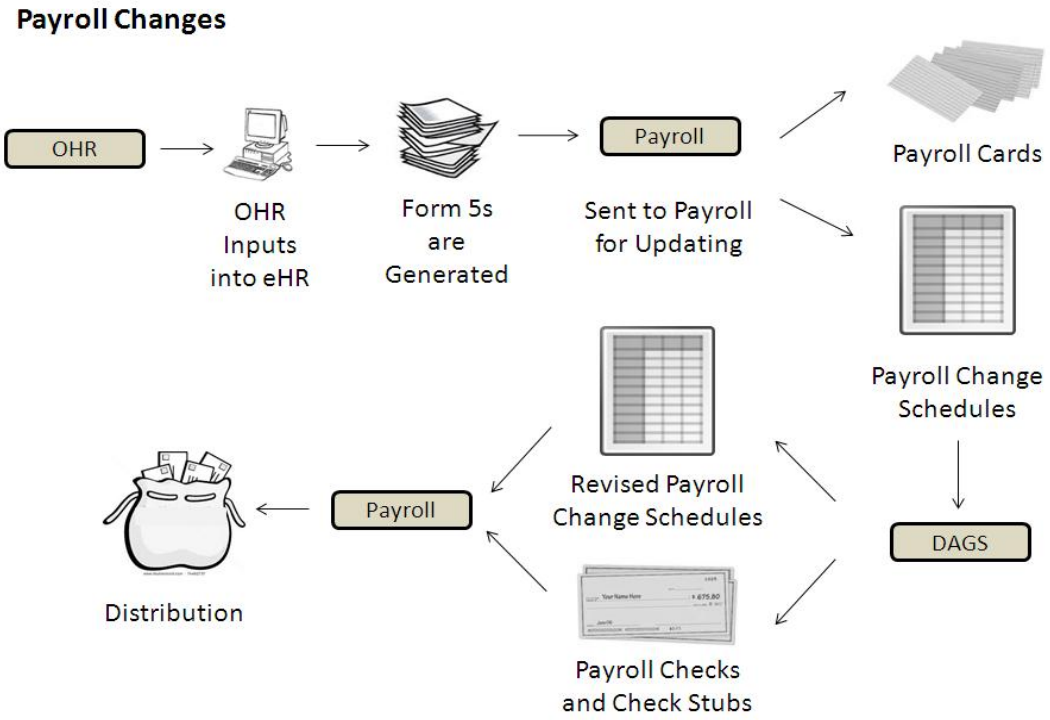
All DOE employees hired on or after July 1, 1998 must specify a financial institution account into which the State will deposit the employee's net pay (direct deposit). Employees hired prior to that date who wish to have direct deposit may do so as well. To sign up for the direct deposit, the employee must complete the "Salary Assignment/Cancellation Form for Bank Assignment/Credit Union Deduction" (Form D-60).

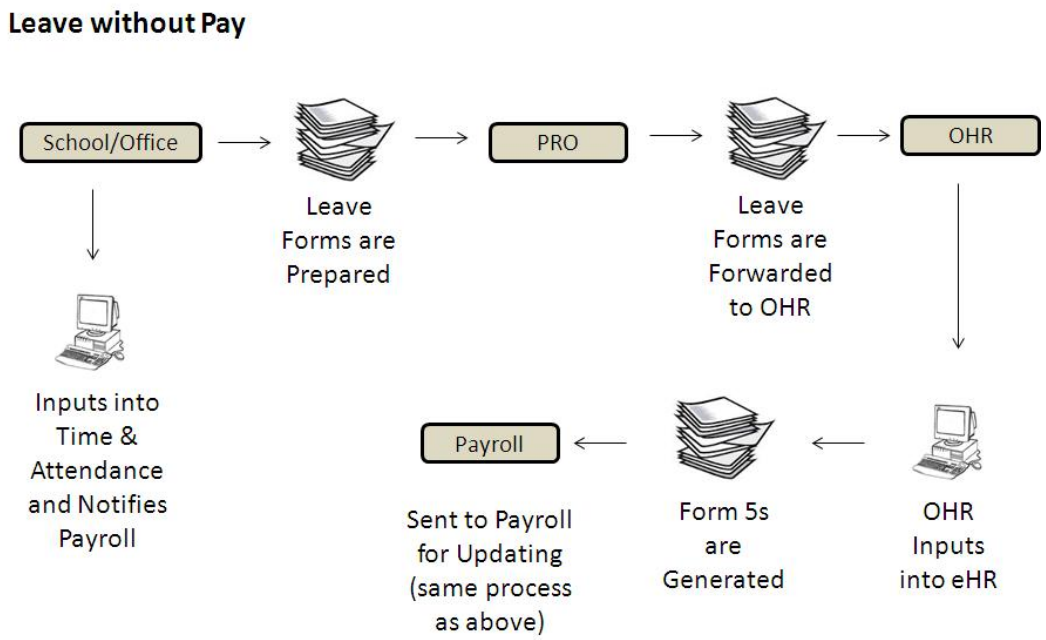
Payroll errors are researched by the Accountant assigned to handle payroll rejects. The Accountant corrects the error and resends it to Payroll to forward to DAGS.

Amy Kunz is the AS and Chief Financial Officer (CFO) of the OFS which handles the payroll policies and procedures. Her management staff include Tom Ishimaru, Accounting Director; Bryan Ota, Accounting Operations Specialist, who handles the operations of payroll; and Don Chinen, Claims Pre-Audit Supervisor in the Payroll Section.

Policies and procedures governing payroll are found in various forms which include Classified Personnel Handbook, School Code Certificated Personnel Policies and Regulations, Standard Practices, training manuals and various memos and notices posted in Lotus Notes.

Below are depictions of the payroll process as described above:





SCOPE and OBJECTIVES:

The scope of our review included an examination of the payroll process. We reviewed the design and operating effectiveness of the existing control procedures in place for the payroll process. The scope of our review specifically focused on the processes related to the following subcategories:

- Current Employees
- New Hire Employees
- Transferred Employees
- Separated Employees
- Vacation Payouts
- Overtime Payments
- Priority Payroll

The scope of the detailed testing covered fiscal year 2012-13. For Vacation Payouts, we selected employees with vacation pay during July 1, 2013 - January 24, 2014 because IA was unable to use the terminations sample for vacation payout testing due to a backlog with vacation payout.

This review excluded detailed testing of casual employees as it was covered by the "Casual Hire Personnel Recruitment, Hiring & Payroll Processes Review" issued by IA. This review also excluded sub-processes that were outside the Payroll Section, including but not limited to eHR, Form 5s, Time & Attendance, and leave forms. Therefore, detailed testing was performed based on what was received by Payroll. We did not perform detailed testing on the accuracy of information provided to Payroll.

Executive Summary

In January 2014, IA issued a "Leave Accounting Follow-Up Review" that covered the accuracy of leave balances at the Department. Please refer to the respective reports for questions related to these areas.

The objectives of our review included the following:

1. To obtain a general understanding of the design and operating effectiveness of the payroll process.
2. To review, evaluate, and test the operating effectiveness of payroll processing to ensure key controls have been adequately put into place and are in compliance with policies and procedures.
3. To review, evaluate, and test the effectiveness of other payroll processing activities.
4. To determine if personnel and compensation changes are accurate and updated timely in the payroll system.
5. To compare the payroll process to "leading practices" and identify opportunities for efficiency and operational improvements within the payroll process.

OBSERVATIONS:

Based upon our review, we found the DOE's controls related to payroll are functioning at a "marginal" level. A marginal rating indicates that there may be a potential for loss to the auditable area and ultimately to the DOE. Some improvements are necessary to bring the unit to an acceptable status, and if weaknesses continue without attention, further deterioration of the rating to an unacceptable status may occur.

Please refer to the Risk Ratings section of this report for a complete definition of the ratings used by IA and the Observations and Recommendations section for a detailed description of our findings.

We discussed our preliminary findings and recommendations with management and they were receptive to our findings and agreed to consider our recommendations for implementation.

Each observation presented in this report is followed by specific recommendations that will help to ensure that control gaps are addressed and, if enforced and monitored, will mitigate the control weaknesses. In summary, our observations are as follows:

1. Inefficiencies and clerical errors resulting from manual processes
2. Lack of integration of payroll and other related systems
3. Priority payroll requests are excessive and avoidable

PLANNED FOLLOW UP BY MANAGEMENT AND INTERNAL AUDIT:

IA will follow up with management on their progress of completion for their action plans and report accordingly through the audit committee quarterly updates.

Observations

OVERALL RATING SCALE	
Acceptable	No significant deficiencies exist, while improvement continues to be appropriate; controls are considered adequate and findings are not significant to the overall unit/department.
Marginal	Potential for loss to the auditable unit/department and ultimately to the DOE. Indicates a number of observations, more serious in nature related to the control environment. Some improvement is needed to bring the unit to an acceptable status, but if weaknesses continue without attention, it could lead to further deterioration of the rating to an unacceptable status.
Unacceptable	Significant deficiencies exist which could lead to material financial loss to the auditable unit/department and potentially to the DOE. Corrective action should be a high priority of management and may require significant amounts of time and resources to implement.

OBSERVATION RATING SCALE	
High (1)	1 - The impact of the finding is *material*[1] and the likelihood of loss is probable in one of the following ways: • A material misstatement of the DOE's financial statements could occur; • The DOE's business objectives, processes, financial results or image could be materially impaired; • The DOE may fail to comply with applicable laws, regulations or contractual agreements, which could result in fines, sanctions and/or liabilities that are material to the DOE's financial performance, operations or image. *Immediate action is recommended to mitigate the DOE's exposure*
Moderate (2)	2 - The impact of the finding is *significant*[1] and the likelihood of loss is possible in one of the following ways: ➢ A significant misstatement of the DOE's financial statements could occur; ➢ The DOE's business objectives, processes, financial performance or image could be notably impaired; ➢ The DOE may fail to comply with applicable laws, regulations or contractual agreements, which could result in fines, sanctions and/or liabilities that are significant to the DOE's financial performance, operations or image. *Corrective action by management should be prioritized and completed in a timely manner to mitigate any risk exposure.*
Low (3)	3 – The impact of the finding is moderate and the probability of an event resulting in loss is possible. *Action is recommended to limit further deterioration of controls.*

[1] The application of these terms are consistent with the guidelines provided by the Institute of Internal Auditors

Observations

The detailed observations noted herein were based on work performed by IA through the last date of fieldwork and are generally focused on internal controls and enhancing the effectiveness of processes for future organizational benefit.

Obs. No.	Description	Page #
1	Inefficiencies and clerical errors resulting from manual processes	8-12
2	Lack of integration of payroll and other related systems	13-16
3	Priority payroll requests are excessive and avoidable	17-20

Observations

Observation Number: 1	
Observation: Inefficiencies and clerical errors resulting from manual processes	**Rating: High**

As noted in the Executive Summary above, the payroll process is very manual. There are 18 Pre-Audit Clerks and one (1) Claims Pre-Audit Supervisor in the Payroll Section processing payroll for over 23,000 salaried employees. Although payroll is paid by exception (employee is paid automatically unless there is a change), there are still inefficiencies and errors due to the large number of employees and transactions in the DOE. The manual payroll process is time consuming and labor intensive. During fiscal year 2013, approximately $130,000 was paid in overtime to the Pre-Audit Clerks. The following table summarizes the exceptions noted during our review indicating inefficiencies and errors resulting from a manual payroll process. Further details are provided in the Reference column. Please refer to the appendix for a list of forms related to the payroll process.

Reference(s)	Summary of Observations Noted
Over/Under Payments	
➢ Monthly base salary indicated on the Form 5 should agree to the monthly base salary paid to the employee.	➢ One (1) out of 1,000 employees tested where the base salary paid was higher than the base salary as indicated on the Form 5. It appears that the numbers were transposed which led to the payment of the wrong pay rate for four (4) pay periods. Pay rate was subsequently adjusted to reflect the proper pay rate based on the Form 5. This resulted in an overpayment of $2,184.00 that has not yet been recovered.
➢ Once an employee has been transferred, payroll for the old position should be stopped immediately.	➢ Seventeen (17) out of 500 employees were overpaid during fiscal year 2013 when they transferred. However, the Payroll Section caught and recovered the overpayments in full for all 17 of those employees.
➢ Vacation payout should be calculated based on the number of work days in a month. Every month, there is a calendar to show the number of work days and the number of work days plus vacation days for that respective month.	➢ One (1) out of 25 vacation payout samples where the vacation payout calculation was not accurate based on the number of work days on the calendar. This resulted in an overpayment of $59.16 that has not yet been recovered.

Observations

Reference(s)	Summary of Observations Noted
Over/Under Payments (continued)	
➢ Overtime should be calculated based on hours worked multiplied by hourly rate multiplied by 1.5%.	➢ One (1) out of 576 overtime transactions tested where the number of overtime hours used for the calculation was different from the overtime hours indicated on Form D-55. This resulted in an overpayment of $30.89 that has not yet been recovered. ➢ One (1) out of 576 overtime transactions tested where the overtime hours used for the calculation was calculated at 1% instead of 1.5%. This resulted in an underpayment of $9.08 that has not yet been adjusted.
Misclassifications	
➢ Program ID that payroll payments are being charged to in FMS should agree to the Program ID on the Form 5.	➢ One (1) out of 899 transactions tested where the Program ID that payments were being charged to in FMS does not agree to the Program ID on the Form 5.
➢ Payments for overtime should be charged to pay type code "O – Ordinary Overtime Pay" and "P – Holiday Pay," while payments for additional hours and differential for temporary assignment should be charged to pay type code "3 – Increase in Pay (DOE)" and "T – Temp Assignment Pay," respectively.	➢ Four (4) out of 576 overtime transactions tested where additional hours (3 instances) and differential for temporary assignment (1 instance) were coded to overtime. Calculations were done properly but it should not have been coded to overtime.
Completion of Forms	
➢ Signature of the employee is required on the Form D-55 to "certify that the time claimed above is correct. No other claim has been made or will be made for the above period. It is mutually agreed that the employee will receive payment or time off indicated above," as stated on the Form D-55.	➢ One (1) out of 576 overtime transactions tested where the employee did not sign Form D-55. However, the form was signed by the Department Head.

Observations

Reference(s)	Summary of Observations Noted
Completion of Forms (continued)	
➢ *Business Office Handbook, Volume I-A – Revised Section XIII, Payroll* states that Form BP-2 should be signed and sent to the Assistant or District Superintendent for approval. The Form BP-2 has 3 signature fields: originator, Supv. Or Principal, and A.S. or D.S.	➢ Thirty-eight (38) out of 576 overtime transactions tested where the originator did not sign Form BP-2. However, all forms were signed by the Assistant Superintendent/District Superintendent. ➢ Fourteen (14) out of 576 overtime transactions tested where the Supervisor/Principal did not sign Form BP-2. However, all forms were signed by the Assistant Superintendent/District Superintendent.
Reconciliation	
➢ Based on inquires, Pre-Audit Clerks are to agree the PCS to the payroll card once the PCS are returned from DAGS.	➢ Although there are two steps requiring manual data entry, (Form 5 to payroll card, then payroll card to PCS) and an additional step to agree the PCS to payroll card when the PCS returns from DAGS, there is no final reconciliation to ensure that the Form 5 and resulting paycheck match.

These observations indicate a weakness in the payroll process procedures. Inefficiencies and clerical error findings were due to the manual process. See the effects of a manual process in Observation Number 2 as it relates to the lack of integration of payroll and other related systems.

Impact

Inefficiencies and clerical errors resulting from manual processes may lead to:

- Incorrect pay rates, miscalculations, miscommunications, and unauthorized claims for overtime pay.
- Overpayments to employees which may lead to financial loss to the DOE.
- Improper Object Codes and misclassification in pay types which may lead to inaccurate reporting.
- Wasted personnel resources in having to correct the erroneous entries.
- Inaccurate payroll data due to lack of reconciliation.
- Overpayments to employees which may also lead to possible damage to the organization's public image.
- Overtime payments to employees as evidenced by approximately $130,000 in overtime payments to the Pre-Audit Clerks during fiscal year 2013.

Recommendation
Recommendations to address inefficiencies and clerical errors resulting from manual processes include: ➢ An integrated payroll system should be implemented to eliminate inefficiencies and clerical errors. ➢ For payroll overpayments, once an error is found, Payroll should immediately start the process to try and recover the overpayments. ➢ Management should periodically, on a test basis, check that vacation payouts are calculated accurately. ➢ Management should periodically, on a test basis, check that overtime is calculated accurately and that overtime classifications are coded properly. ➢ Management should create policies and procedures on how to handle transferred employees. ➢ Management should verify, on a periodic basis, that transferred employees do not receive paychecks from previous positions. ➢ Payroll clerks should be reminded that overtime forms need to be signed by all required personnel prior to the process of overtime payments. Management should review on a periodic basis.
Management Plan
The DOE and State of Hawaii are in the process of implementing an Enterprise Resources Planning (ERP) system known as the State Unified Resource Framework (SURF) that will integrate Human Resources, Time and Attendance, and Payroll as well as Accounting, Fixed Assets and Budget. Payroll begins the overpayment recovery process as soon as overpayments are discovered, and as current workloads and the DAGS payroll deadlines permit. However, work on overpayment recovery is typically performed on an overtime basis. With the implementation of SURF, overpayments should be minimized and the process to recover any overpayments will be done timely. Vacation payout calculations are currently completed by a third party contractor (hired to audit Application for Transfer of Vacation and Sick Leave Credit or Payment in Lieu of Vacation (Form G-2)) from information provided by the schools/offices. The Operations staff will check the vacation payout calculation by the third party contractor before paying out the vacation. With the implementation of SURF, vacation payout should be calculated accurately through the use of system processes. The Payroll Claims Supervisor will periodically check the overtime calculations and coding. With the implementation of SURF, overtime should be calculated and coded accurately. Employee transfers within DOE is an OHR function and is controlled by OHR through the issuance of Form 5s. In some cases, OHR generates **two (2) Form 5s** for an employee transfer within the DOE. A "Resignation/Other State/County Jurisdiction" action Form 5 for the Position Number in the "transfer-from" or losing school/office **and** a "Rehire/Rehire From Another Jurisdiction" action Form 5 for the new Position Number in the "transfer-to" or gaining school/office. In other situations, OHR issues **only one (1) Form 5** for an employee transfer within DOE. A "Data Change/New Appointment" action Form 5 for the new Position Number in the "transfer-to" or gaining school/office is the **only** Form 5 generated (a Form 5 for the Position Number in the "transfer-from" or losing school/office is **not** generated). In this case, the responsibility to "terminate" an employee from the "transfer-from" or losing school/office Position Number is inappropriately placed on Payroll. If "termination is not processed, an overpayment occurs.

Observations

Operations will work with OHR to determine if two (2) Form 5s for an employee transfer within DOE can be generated from OHR **in every situation** to remove the misplaced burden of terminating an employee from the "transfer-from" or losing school/or office Position Number from Payroll.

In the interim, the Payroll Claims Supervisor will remind the payroll staff to make a copy of the Form 5 for an employee transfer within the DOE when only one (1) Form 5 is generated, and give the copy to the Payroll clerk that is responsible to terminate an employee from the "transfer-from" or losing school/or office Position Number. With the implementation of SURF, payroll should be calculated accurately for transferred employees and controls will be in the system to avoid duplicate checks to the same employee.

The Payroll Claims Supervisor will periodically check to verify that a transferred employee did not receive paychecks from the previous position. With the implementation of SURF, payroll should be calculated accurately for transferred employees due to system controls.

The Payroll Claims Supervisor will remind the payroll staff that all overtime forms (BP-2s) need to be signed by required personnel. The Payroll Claims Supervisor will periodically check to verify that overtime forms are signed. With the implementation of SURF, overtime should be properly authorized prior to payment by payroll.

Contact Person: Bryan Ota, Accounting Operations Specialist, Operations Section, OFS

Anticipated Completion Date: June 2015 with the exception of SURF. Target implementation date for SURF is December 2017.

Responsible Manager
Bryan Ota, Accounting Operations Specialist, Operations Section, OFS

Observations

Observation Number: 2	
Observation: Lack of integration of payroll and other related systems	**Rating: Medium**

As depicted in the diagrams for payroll changes and LWOP, there are two (2) main systems that should be integrated with the payroll system for the DOE: the eHR system which generates the Form 5s and the T&A system which keeps time balances for LWOP, among other things. Currently, these two (2) systems are not integrated with the payroll system. As mentioned above, payroll is a manual process and has not yet transitioned to an electronic system. The Payroll Section has to rely on schools, state offices, and other departments to communicate payroll related information before they can manually process the payroll adjustments. The following table summarizes the exceptions noted during our review highlighting the issues related to a lack of integrated systems. Further details are provided in the Reference column. Please refer to the appendix for a list of forms related to the payroll process.

Reference(s)	Summary of Observations Noted
Misclassifications	
➢ Object Codes that payroll payments are being charged to in FMS should agree to the Object Codes on the Form 5.	➢ Sixty-one (61) out of 899 payroll transactions tested where the Object Codes that payments were being charged to in FMS did not agree to the Object Codes on the Form 5 due to differentials. Form 5 is charging to teacher pay but FMS is charging to differential pay. Payroll is recording the FMS transactions based on differential pay as indicated on the Form 5. However, instead of just recording the differential pay, Payroll is recording both teacher pay and differential pay into differential pay because the Form 5 does not provide a breakdown of what should be coded as teacher pay versus differential pay.
First Paycheck	
➢ Lag Schedule for anyone hired before July 1, 1998 or 10-month employees (teachers). These employees get paid five days after the last day of the pay period. However, for a newly hired teacher's first paycheck, payment is made after the first "full" pay period they worked. ➢ ATF Schedule for all other employees get paid the following pay period.	➢ Three (3) out of 500 new hire employees did not receive their first paychecks timely due to payroll processing delays. One (1) of the employees was paid 8 pay periods after his/her first pay period ended while the other two (2) employees were paid 2 pay periods after their first pay period ended. Finding decreased by 9% compared to prior period's review.

Observations

Reference(s)	Summary of Observations Noted
Last Paycheck	
➢ Final paycheck should be paid to employees on a timely basis to compensate for all time worked. Once an employee is separated from the DOE, no additional payroll payments should be made to the employee.	➢ Three (3) out of 500 separated employees tested where the last paycheck paid to the employee was after the allowable pay period based on the employees' separation date. For two (2) of the employees, extra payments were made after the employees have separated. This resulted in an overpayment of $17,065.74, of which, $11,431.74 was recovered from one (1) of the employees and $1,878.00 was recovered from the other employee. Payroll is in the process of recovering the rest of the money.
Leave without Pay	
➢ In the "Leave Accounting Follow-Up Review" performed by IA, OHR training documents states that "a leave of absence without pay requires that the approved leave request form be forwarded to an Assistant Superintendent/Complex Area Superintendent (AS/CAS) or PRO for an additional approval. Once approved, the leave request form is forwarded to OHR so that a Form 5 can be generated for the period of leave without pay then the form is forwarded to Payroll for notification and recordkeeping. The timekeepers are also responsible for contacting the appropriate payroll personnel to notify them of the employee's leave status as the paperwork may not reach Payroll in time to adjust the employee's pay in the proper pay period."	➢ During the "Leave Accounting Follow-Up Review," it was found that "five (5) employees did not have a Form 5 indicating they were on LWOP, resulting in a possible overpayment." IA followed up with Payroll regarding these employees and Payroll had no knowledge of the LWOP as of the initial fieldwork date. IA then followed up with the schools and noted that for four (4) of the employees, Form 5s were generated months after the employees were on leave. Once Payroll receives the Form 5, they will process the LWOP.

These observations along with some of the observations in Observation Number 1 show the importance of an integrated payroll system. Many of the findings can be minimized, if not eliminated, through an integrated system. Since payroll pays by exception, the Payroll Section has to rely on schools, state offices, and other departments to communicate payroll related information before they can process any payroll adjustments. If information is not communicated to Payroll, they have no way of knowing what to process. In addition, as noted above, the payroll process is a very manual process; therefore, it is difficult to do a mass data analysis with the information on the payroll card against the information on the Form 5. By integrating the Payroll System with T&A and eHR, the following results may be realized:

increase productivity, decrease in clerical errors, decrease the need for payroll personnel overtime, and ability to perform data analysis. Implementation to a positive pay system can also help increase the accuracy of payroll.

Impact

Lack of integration of payroll and other related systems may lead to:

- Improper Object Codes which may lead to inaccurate reporting.
- Delays in employees receiving their first paychecks which may lead to priority payments. The priority payment process is time consuming for the Operations Section in OFS.
- Overpayments to employees due to the continuation of payroll payments subsequent to employees' separation.
- Miscommunication to Payroll regarding LWOP which may lead to overpayments to employees.
- Overpayments to employees which may lead to financial loss to the DOE.
- Overpayments to employees which may also lead to possible damage to the organization's public image.
- A lack of data analysis which may lead to inaccurate payroll data.
- Overtime payments to employees as evidenced by approximately $130,000 in overtime payments to the Pre-Audit Clerks during fiscal 2013.

Recommendation

Recommendations to address the lack of integrated systems include:

- Management should move to an integrated system that allows payroll to be processed electronically and be able to communicate with other payroll related systems such as T&A for leave absences and eHR for personnel data.
- Management should work with OHR to create a breakdown of what should be coded as teacher pay and what should be coded as differential pay.
- Payroll section should process new hire payroll as soon as they receive the Form 5. Management should investigate payroll processing delays and ensure that preventative measures are in place to mitigate the chances of the delay from reoccurring.
- Management should periodically, on a test basis, check that separation procedures were properly performed for separated employees.
- For payroll overpayments, once an error is found, Payroll should immediately start the process to try and recover the overpayments.

Management Plan

The DOE and State of Hawaii are in the process of implementing an ERP system known as SURF that will integrate Human Resources, Time and Attendance, and Payroll as well as Accounting, Fixed Assets and Budget.

The inability to breakdown what should be coded as teacher pay and what should be coded as differential pay on the Form 5 is a system limitation of eHR. It has been verified that the employee total pay is correct so there is no impact to the employee. However, the Department is aware that financial information separating differential and base pay are not correct in fiscal reporting. Since there are no current accounting reporting requirements and the information needs for budget purposes can be provided by eHR, this recommendation will be addressed with the implementation of SURF.

Observations

Payroll processes new hires as soon as they receive the Form 5. The Payroll Claims Supervisor will periodically check to verify that a newly hired employee is paid timely. With the implementation of SURF, payroll should be calculated accurately for newly hired employees and paid timely.

Payroll stops the payment of payroll to separated employees as soon as they receive the Form 5 or when they are notified by a school/office. The Payroll Claims Supervisor will periodically check to verify that payroll has been stopped for a separated employee. With the implementation of SURF, payroll should be stopped in a timely manner for separated employees.

Payroll begins the overpayment recovery process as soon as overpayments are discovered, and as current workloads and the DAGS payroll deadlines permit. However, work on overpayment recovery is typically performed on an overtime basis. With the implementation of SURF, overpayments should be minimized and the process to recover any overpayments will be done timely.

Contact Person: Bryan Ota, Accounting Operations Specialist, Operations Section, OFS

Anticipated Completion Date: June 2014 with the exception of SURF. Target implementation date for SURF is December 2017.

Responsible Manager
Bryan Ota, Accounting Operations Specialist, Operations Section, OFS

Observations

Observation Number: 3	
Observation: Priority payroll requests are excessive and avoidable	**Rating: Low**

Accuity LLP performed a "Management and Fiscal Assessment of the Office of Human Resources" in 2008. One of the findings within the report was related to priority payroll. IA followed-up on the finding in the current year and we found that priority payroll requests are still excessive and avoidable. From January 1, 2013 to December 31, 2013, there were 377 priority payroll transactions totaling $285,123.23.

Business Office Handbook, Volume I-A – Revised Section XIII, Payroll states that the purpose of priority payroll is "to advance payment to an employee after it is determined that the employee's personal circumstances justify priority payment on a priority basis before the succeeding payday. Priority payment is not a payroll payment, but is a loan on account of compensation already earned, to be repaid by the employee. The priority payroll process is for a special purpose and not for routine use. Schools/Offices must review each request and determine if priority is justified."

Based on our analysis, during calendar year 2013, the top three reasons for an employee to receive priority payroll payment were due to school/office error (64%), technical problem - blackout/computer glitch (19%), and payroll error (10%). The average dollar amount of priority payments during the year was $756.30, which decreased from the previous Accuity report noted above. We also indicated the schools/offices with the most priority payroll requests. Below are tables comparing current year findings to prior findings.

Comparison of Calendar Year (2013) and Prior Year (10/01/05-07/22/08) Data

Average Dollar Amount of Priority Payments

	Current Year	Prior Year	Difference
Average Dollar Amount of Priority Payments	$756.30	$897.00	($140.70)

Priority Payroll Log by Reason Code

Reasons	# of Occurrences	% of Total (2013)	% of Total (Prior)	Difference
School/Office Error	241	64%	65%	-1%
Technical Problem – Blackout/Computer Glitch	70	19%	2%	16%
Payroll Error	39	10%	11%	-1%
Delay in OHR Certification	21	6%	15%	-9%
Employee Delay	2	1%	5%	-4%
Funding Delay	0	0%	1%	-1%
Start Work Before Hiring Papers Processed	0	0%	1%	-1%
Delay with DAGS	3	1%	0%	1%
Other	1	0%	0%	0%
Total	377			

Observations

Priority Payroll Log by School/Office in Current Year

Rank #	School/Office	# of Requests
1	Central Middle School	15
2	Waianae High School	14
3	Kahakai Elementary School	10
4	Maili Elementary School*	10
5	McKinley High School*	10
6	Pearl City High School	9
7	Aiea Intermediate School	7
7	Hilo High School	7
7	Kauluwela Elementary School	7
7	Lokelani Intermediate School	7
7	Mountain View Elementary School	7
7	Pearl City Elementary School	7

Note: Repeat Schools/Offices from prior year are indicated by an asterisk (*).

Priority Payroll Log by School/Office in Prior Year

Rank #	School/Office	# of Requests
1	Kapolei High School	30
2	Waianae Elementary School	21
3	Kapolei Middle School	19
4	Kealakehe High School	18
5	Maili Elementary School	15
6	Waikoloa Elementary School	14
7	McKinley High School	13
8	Kapiolani Elementary School	13
9	Nanaikapono Elementary School	11
10	Kaaawa Elementary School	10
10	Kaewai Elementary School	10
10	OSFSS-Student Transportation Branch	10

Impact

The priority payment process is an inefficient and time consuming process for the Operations Section in OFS. Such inefficiencies result in wasted resources and financial loss to the DOE.

Observations

Recommendation
Management should create formalized guidelines and dollar thresholds regarding the use of priority payments. In addition, Complex Area Business Managers (CABM) should assist schools that repeatedly request for priority payments to help resolve the priority payment issue.
Management Plan
We agree that the priority pay process is a time consuming process for Operations. However, this process is necessary to provide a "stop-gap" payment in lieu of receiving payroll. Every employee, whether regular or casual, should receive payment for time and service rendered to the DOE. Requests for priority pay are reviewed on a case-by-case basis. Approval is granted only when the employee has no other source of income and/or is experiencing financial hardship due to non-payment of payroll. To establish a dollar threshold for priority pay would be unfair to the lowest paid employee in the DOE, the casual worker. To the casual employee even $50 is necessary to supplement whatever income he/she has outside of the DOE. However, not all priority pay requests are granted. Reasons for denying requests for priority pay include, but are not limited to the following: 1. The employee has another source of income (e.g., the employee is currently being paid in a 50% FTE position and is requesting Priority Pay for work performed as a Casual Hire). 2. The employee is requesting Priority Pay for Fringe pay (e.g., overtime). 3. A Priority Pay was already approved and paid to this employee in the current year. 4. The Priority Pay request was received by Payroll after the Form D-60 deadline and the employee will be paid their regular payroll on the next pay date. Requests for priority pay are **not** denied based on the reason for the error or non-payment of payroll, or the number/volume of requests received and/or processed for a given school/office. We also agree that this process could be better managed by involving the CAS, CABM, Administrator, OHR and OITS. Operations will provide a monthly report of approved priority pay to the OFS AS and CFO. This report will identify the reason for the approved priority pay for review and follow-up. Approved priority pay for "School/Office Error" will be distributed to the CAS and CABM, or Administrator. The CABM or Administrator will investigate the reason(s) for lack of processing payroll in a timely manner, and ensure that the School Administrative Services Assistant (SASA) or office personnel responsible for payroll understands the payroll process (including timely verification of casual hire hours) and has all of the necessary payroll deadline information. The CABM or Administrator will also help to establish possible back-up personnel to process payroll in the SASA's or office personnel's absence. Approved priority pay for "Delay in OHR Certification" of Casual Appointments will be forwarded to OHR. OHR will investigate the reason(s) for the delay and take appropriate corrective action.

Observations

Operations and Payroll will follow-up with OITS for approved priority pay requests that are a result of a "Technical Problem – Blackout/Computer Glitch." OITS will investigate the reason(s) for the technical problem and take appropriate corrective action. Operations will follow-up with the Payroll Claims Supervisor for approved priority pay requests that are a result of "Payroll Errors." The Payroll Claims Supervisor will investigate the reason(s) for the payroll error and take appropriate corrective action. Contact Person: Bryan Ota, Accounting Operations Specialist, Operations Section, OFS Anticipated Completion Date: June 2014
Responsible Manager
Bryan Ota, Accounting Operations Specialist, Operations Section, OFS

Appendix

Forms and Documents:

Forms and Documents Referred to in this Report	
Form/ Document No.	Form/ Document Names
DOE Form 5	Notification of Personnel Action
DOE Form 404A	Payroll Master Record (Payroll Card for Classified Employees)
DOE RS 02-0082	DOE Payroll Mastercard (Payroll Card for Certificated Employees)
	Payroll Change Schedule
Form DOE G-1	Application for Leave of Absence
Form DOE OHR 300-001	Application for Leave of Absence - Certificated School-Level Employees
Form G-2	Application for Transfer of Vacation and Sick Leave Credit or Payment in Lieu of Vacation
DOE Form BP-2	Request for Overtime
DOE Form D-55	State of Hawaii D55 Report – Individual Time Sheet
Form SF-10	Notification of Temporary Assignment
Form D-60	Salary Assignment/Cancellation Form for Bank Assignment/Credit Union Deduction

Acknowledgements

We wish to express our appreciation for the cooperation and assistance afforded to the review team by management and staff during the course of this review.