

**Audit of Payroll  
Processing Transactions  
A06-02**



**August 2006**

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## **Office of Inspector General Audit of Payroll Processing Transactions**

The Office of Inspector General (OIG) conducted an audit of the Federal Maritime Commission's (FMC or Commission) payroll processing transactions. This audit follows up on payroll-related findings developed in the OIG's FY 2005 Financial Statement Audit. Specifically, the OIG found several reconciliation errors between employee's Leave and Earnings Statements (LES) (system reports detailing employee pay and leave for a given pay period) and STAR reports (timekeeper input reflecting hours worked and leave used), and other internal control vulnerabilities. Payroll-related errors can impact either employee or agency finances, depending on the direction and magnitude of the errors. Therefore, it is critical that controls be in place and functioning properly to eliminate errors or to identify those errors before they perpetuate. Errors caught soon after they are made are much easier to correct than errors occurring weeks or months earlier.

In December 2005, the Commission's management took steps to address the OIG's findings. For example management reminded all FMC supervisors of their responsibility to certify the accuracy of leave usage by staff by signing off on timecards. This holds supervisors accountable for staff's (employees and timekeepers) input. Management also reminded all employees of the need to periodically review their LES available on the National Finance Center's (NFC) Employee Personal Page (EPP) to verify that salaries, deductions and leave balances are accurate.

### **I. Background**

To ensure employees are accurately paid and charged for leave when taken, the agency relies on a number of participants and layers of review in the payroll process.

\*\* Employees are responsible for recording their leave usage. This process is facilitated by forms FMC-109, *Employee Arrival and Departure Record* (for employees working an alternative work schedule<sup>1</sup>) and Office of Personal Management (OPM) Form-71, *Request for Leave or Approved Absence* (a.k.a., leave slips).<sup>2</sup>

\*\* Timekeepers input leave charges submitted by staff into the STAR system. The timekeeper prints the STAR Time and Attendance (T&A) report, certifies (by signature) that the time recorded reflects the employee's claim and presents the T&A report to the employee for his/her review and signature. Timekeepers are also required to maintain a

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<sup>1</sup> Employees on an Alternative Work Schedule (AWS) are given the option to work nine-hour days with one day off each pay period, or 10-hour days with one day off per week.

<sup>2</sup> Appendix A. contains forms used in the payroll and leave transaction process. STAR is an acronym for System Time and Attendance Reports.

separate reconciliation of employee leave on FMC Form 183, *Annual Leave Record*, to ensure leave balances are accurate. There were 22 timekeepers at the time of our review.

\*\* Supervisors are the next layer of review in the process. Timekeepers provide the signed (e.g., certified) T&A forms to the employee's supervisor for signature, which serves as a control to ensure that the employee's claimed hours are consistent with the supervisor's knowledge of the hours worked.

\*\* The final step in the review is performed by the Office of Financial Management (OFM) staff. OFM reviews the STAR T&A report for errors, such as to ensure that employees have certified their timecards, supervisors have reviewed the leave charges, and that employees are not "overdrawn" on their sick or annual leave accounts. Once these processes are completed the timekeeper transmits the information to NFC. In addition to these responsibilities, OFM serves as a backup Agency-wide timekeeper, trains timekeepers and their alternates and runs various system reports.

In addition to the participants identified above, the Office of Human Resources (OHR) plays a direct role to facilitate time and attendance reporting. For example, OHR enters transferred leave balances for continuing Federal employees, transmits employee leave balances to receiving agencies, resets timekeeper passwords, assists OFM by serving as a back-up for producing payroll-related transmission reports from NFC and is responsible for interpretation of leave policy. For its part, NFC, the agency's contracted agent for payroll processing, maintains the payroll system database and pays employees.

## **II. Objective, Scope and Methodology**

The objective of the audit was to evaluate the Commission's controls over time and attendance processing transactions. To address the audit objective, the OIG reviewed payroll documentation, including employees' LES's; time and attendance records; leave requests and STAR reports. We documented payroll processing steps with an eye toward identifying overlap, duplication and potential vulnerabilities. Finally, we reviewed storage and maintenance of payroll documentation for privacy concerns.

The OIG interviewed officials responsible for employee pay and leave, to include the Directors of OHR and OFM and select members of their staff, NFC's customer service representative, FMC's timekeepers and agency employees. The OIG reviewed pertinent government-wide payroll regulations and internal payroll guidance, including NFC's *Time and Attendance Instructions*, dated June 2005, and Commission Orders (CO) 64, *Employee Absence and Leave* and CO 92, *Work Schedules*. As background, we revisited a prior FMC OIG audit report, entitled *Review of Time and Attendance Practices*, dated July 31, 1992, and identified audit objectives and findings that were pertinent to this audit.

As part of our testing of controls, we obtained an FMC-employee roster as of February 17, 2006, containing 121 employees in a pay status. From this universe, we excluded 25 employees whose payroll documentation had already been reviewed by the OIG during the FY 2005 financial statement audit and five FMC Commissioners who are exempt from the Annual and Sick Leave Act (5 U.S. Code 6301(2) (x)). From the 91 employees remaining, we selected a sample of 30.

For these 30 employees, we collected time and attendance documentation to include STAR reports, FMC-183, *Annual Leave Record* reports, and, when applicable, OPM Form-71 (leave requests) and FMC-109, *Employee Arrival/Departure Record* for calendar year (CY) 2005 pay period #20 (October 2 – 15, 2005) and CY 2006 pay period #3 (February 5 – 18, 2006). The audit was stratified to include employees from the following FMC offices: Office of the Secretary and its respective offices; Office of the General Counsel (GC); Office of Administrative Law Judges (ALJ); Office of Administration (OA) and its respective offices; Bureau of Certification & Licensing (BCL) and its respective offices; Bureau of Trade Analysis (BTA) and its respective offices and the Bureau of Enforcement. We also reviewed leave balances for three employees that departed the FMC during the period October 2005 – February 2006.

We obtained employees' *Leave and Earnings Statements* to compare the balances on the STAR reports with the LES and the NFC's April 22, 2006, error report.<sup>3</sup> For three employees on the error report, we performed a leave audit. The purpose of a leave audit is to identify and explain discrepancies between leave balances maintained by timekeepers and those in the NFC payroll system.

We observed 16 of the 22 timekeepers' security practices concerning time and attendance records and surveyed 13 of the 16 timekeepers to document payroll retention practices and timeframes.

We also surveyed 15 of the same 16 timekeepers to discuss OFM's in-house review of employee STAR reports. Fourteen timekeepers responded and one, the OFM timekeeper was excluded from the survey.

We conducted this performance audit in accordance with generally accepted government auditing standards from March, 2006 to July, 2006. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence that provides a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

### **III. Results of Audit**

The OIG found that the agency has some controls in place to ensure that employees are paid accurately and timely, and that annual and sick leave usage is correctly reflected in the payroll system. One such control is supervisor certification (e.g., sign off) of their staff's time charges.

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<sup>3</sup> The Error Report is produced through the NFC system and details discrepancies between employees leave balances in the NFC database and balances on the STAR reports which are timekeeper produced.

This control holds supervisors accountable for errors or intentional mischarges by employees seeking to benefit at the Agency's expense. Further, employees are required to certify the accuracy of leave charges. We also identified policies and procedures in place to ensure that leave is approved in advance and records are maintained to support leave used.

While controls are in place, we found instances of noncompliance which permitted leave balance errors to occur and persist. Further, actions taken by management to address leave balance inaccuracies have been ineffective. For example, errors persist even after guidance to correct these errors was issued by management months earlier. The OIG believes that additional steps need to be taken to correct reporting errors and to strengthen controls to ensure that future errors are minimized and are identified timely.

We also noted several inconsistencies among timekeepers regarding the recording of payroll data, the extent to which documentation is maintained and secured, and whether FMC policies and procedures are followed and/or enforced. To correct most of the deficiencies, the OIG believes that management should provide specific/targeted training to timekeepers that addresses the noted deficiencies. Management should also proactively ensure the accuracy of leave balances by running error reports which identify discrepancies in leave balances. All recommendations follow the findings.

#### **A. Timekeeper Separation of Duties**

In 1992, the OIG performed an operational review of the Commission's T&A practices. At that time, the OIG identified a lack of separation of duties in timekeeping as a control weakness. Specifically, timekeepers prepared and maintained their own time and attendance records. This process could permit timekeepers to take leave without recording all or some of the leave taken, with little chance of detection.

During the current review, we found that several timekeepers continue to prepare their own timecards. However, in 16 offices/bureaus we found that the alternate timekeepers certified the STAR report with his/her initials and that, without exception, the timekeepers' supervisors certified the leave charged, minimizing the likelihood of false claims.

The OIG believes that these compensating controls (alternate timekeeper and supervisor sign off) serve as a strong deterrent to timekeeper abuses.

#### **B. Occurrences of Non-Certification**

All parties in the T&A process (employee, timekeeper and supervisor) are required to certify the accuracy of leave charges, as explained above. In effect, all three parties are certifying, under penalty of law, that to the best of their knowledge, the leave usage is accurate. This serves as a strong deterrent to the employee making a false claim and to the timekeeper to assist another

employee in a fraudulent scheme. It also serves as a reminder to supervisors of the importance of monitoring staff's (leave) activities.

The NFC's *Time and Attendance Instructions* requires that the timekeeper and employee sign off on the STAR report each pay period to verify that the leave charged, time worked and non-pay status recorded are correct. In addition, supervisors must sign the record to certify that the time and attendance report is correct. All required documentation should be attached or available for review.

The OIG judgmentally sampled T&A records for a total of 30 employees in pay period #20 (October 2 -15, 2005) and pay period #3 (February 5 – 18, 2006), to determine whether the employees, timekeepers and supervisors certified the STAR report.

Our review found that the timekeepers certified all timecards with only one exception. We also found inconsistent compliance by employees regarding the certification of their timecards; however, the supervisors certified the accuracy of all timecards. Although supervisory review mitigates some concerns about inconsistent compliance by staff, it does not substitute for employee certifications. The following chart illustrates compliance with timecard certification requirements in our sample.

**Occurrences of Non-Certification  
(Sample Size = 30)**

	Pay Period 20	Pay Period 3
Timekeeper Non-Certification	0	1
Employee Non-Certification	6	7
Supervisor Non-Certification	0	0

Employee review of leave charges is a critical first step to maintaining an accurate time and attendance system. Input errors by timekeepers or inaccurate leave usage charges are easily spotted and corrected at this point. If an employee is not available to certify his/her time, timekeepers should annotate the timecard for an employee's non-certification. For example, an employee may be on leave or in a travel or training status.

**C. Errors in Leave Balances**

During the annual financial statement audit for FY 2005, the OIG identified discrepancies between payroll records for selected employees. That is, the STAR leave balances did not agree with leave balances on the employee's leave and earnings statement. In response, management instructed supervisors and employees to carefully review their bi-weekly leave balances to identify errors. However, many of the same types of discrepancies noted almost one year ago continue to persist.

Relying on affected employees to spot these discrepancies is at best cumbersome, as it requires them to download leave and earnings statements and then compare leave balances to the STAR, which are maintained by timekeepers. As errors are unusual, few employees would identify discrepancies. Asking employees to identify when errors first occurred in order to alert timekeepers to make necessary adjustments is unrealistic.

To understand how discrepancies can exist and the types of errors leading to such discrepancies, it is first necessary to understand the relationship between the two forms (STAR and LES) and how data is recorded.

An employee's leave information is entered into the STAR system by timekeepers. Selected data entered into the STAR are sources for certain fields on the *Leave and Earnings Statement*, such as regular hours worked, leave used or holiday leave. When employee leave is entered into the STAR system, it affects the *Leave and Earnings Statement*, therefore, an error by the timekeeper would be reflected on the STAR report and the *Leave and Earnings Statement*, and would not be identified as a discrepancy in an error report. Only the affected employee's review of the STAR report would catch this error before it is posted to the *Leave and Earnings Statement*.

On the other hand, leave accruals (i.e., six hours annual leave and four hours of sick leave for employees with between three and 15 years of service) are automatically posted to the *Leave and Earnings Statement* without necessitating an entry on the STAR. Even if the timekeeper accidentally transposed the leave earned, the *Leave and Earnings Statement* would still show the correct leave balances.

The OIG identified three employees from the NFC error report with leave balance discrepancies between the STAR and LES system reports. The OIG then performed a leave audit to determine the causes for the discrepancies and found the following four errors:

- The annual leave balance for one employee was incorrectly entered by the timekeeper into the STAR system when this employee transferred from another federal agency. The correct balance was posted to the *Leave and Earnings Statement* database by the OHR. As a result, the leave balances entered by two different parties did not reconcile.
- An annual leave recording error was submitted and processed but was subsequently caught by the timekeeper. The timekeeper made changes to the annual leave carrying balance in the STAR instead of entering a corrected T&A for the employee to reflect an accurate record. As a result, the leave balances do not reconcile because proper actions were not taken by the timekeeper.
- An error in one employee's sick leave balance that occurred in 2004 or 2005 was identified.
- A timekeeper did not code the STAR system to accrue six hours of annual leave and four hours of sick leave. Because these earnings are credited to the *Leave and Earnings Statement*'s database by OHR, a discrepancy resulted between the two systems.



The NFC's Instructions recommend that a leave error report be generated by the system to identify leave discrepancies. NFC staff explained that these reports, which rely on automated processes to spot discrepancies and require little time to run, can be run every pay period. During the period of our fieldwork, the OIG found only one person in the Office of Administration that could run the error report and that these reports were rarely run. The OIG believes that failing to run these reports every pay period, coupled with the difficulty in spotting discrepancy errors, ensures that these errors will continue. The agency must (i) identify all discrepancies; (ii) correct the errors that lead to the discrepancy, and (iii) institute a procedure whereby OFM prepares error reports to identify and correct errors as they occur. Since our audit the OFM has been working with timekeepers to reconcile the two systems.

Much of the cause of errors lies with the need for timekeeper training and the need for the OFM to produce the error reports every pay period. The OFM should train two staff (one primary and one back up) to insure that these reports are run each pay period.

The OIG also noted that the use of FMC-183, a leave balance reconciliation document, failed to catch any discrepancies. For example, the OIG identified discrepancies associated with three of 25 employees identified on the April 22, 2006, error report that were not identified by timekeepers maintaining FMC-183. The OIG noted that timekeepers are not properly using supporting documentation to annotate leave taken, making it difficult to detect errors in employees leave balances with the STAR. Notwithstanding, the OIG believes it to be a cumbersome requirement placed on timekeepers that is better used to assist leave audits than to reconcile balances on a bi-weekly basis.

We also found that OHR does not verify that STAR and NFC's database reconcile before employees separate from the agency. NFC staff told the OIG that the agency should perform leave audits before an employee separates from the agency as the NFC has no access to source documentation (e.g. leave slips). If a discrepancy occurs on a separating employee's leave balance, and the employee requests a lump sum payment of his/her annual leave, NFC must request that the agency perform an audit to detect the error and make the necessary adjustments.

Those employees that transfer to another agency are not paid for their leave, however, their leave balances are transferred based on NFC's database. Without verifying the balances the employee could receive hours transferred to another Agency that s/he is not entitled to or, alternatively, lose hours s/he has rightfully earned.

The OFM manager told the OIG that they have to address the leave balance errors by working with timekeepers, performing leave audits and making adjustments to the NFC database or STAR when applicable.

The OIG notes that OFM disagrees with the need to eliminate the form. However, based on our discussions with timekeepers, we continue to believe that the form is unnecessary and adds little value.

#### **D. Supporting Documentation Missing**

The Government Accountability Office (GAO) report *Maintaining Effective Control over Employee Time and Attendance Report*, dated January 2003, states that for each employee and pay period there should be supporting documentation or records for absences. In addition, FMC issued related guidance in Commission Order (CO) 64, *Employee Absence and Leave* and CO 92 *Work Schedules* advising employees on time and attendance-related issues.

CO 64 requires that annual and sick leave be approved in advance of the absence and submitted to the supervisor for approval on OPM Form 71, *Request for Leave or Approved Absence*. When advanced approval is not feasible, the employee is to notify the supervisor as soon as possible as to reasons for the absence.

In our testing we found several instances of noncompliance with Commission Orders and GAO guidelines. For example, in the two pay periods sampled, there were a total of 35 instances of leave used by employees. Of these 35 instances, seven (or 20 percent) lacked leave request documentation. Timekeepers told us that they did not have the forms for the following reasons: (i) lost or misplaced form, (ii) form not provided to timekeeper and (iii) form not required by supervisor for less than eight hours of leave. When documentation is not available, the Agency is not complying with government-wide and agency specific leave guidelines and it could indicate that the leave was never approved.

The OIG also reviewed documentation for employees that participated in a compressed work schedule to determine whether employees and timekeepers complied with CO 92 Section 10, which states that bureaus and offices are to require a written record of arrival and departure times for employees on a compressed work schedule (e.g. AWS) on FMC-109. We found that three employees (of nine employees drawn from our sample that participated in the program in both pay periods) did not submit FMC-109 as required for participating in the program. This form should be completed by the employee and submitted to the timekeeper at the end of the pay period. Although this is not an official record, the FMC-109 assists the timekeeper in facilitating information into the STAR.

The GAO *Standards for Internal Control in the Federal Government*, dated November 1999, states that internal controls over all transactions and other significant events need to be clearly documented and the documentation should be readily available for examination. However, we could not review supporting documentation for leave taken or compressed work schedules. Obtaining and maintaining supporting documentation for leave and compressed work schedules holds employees accountable and assists the timekeeper in maintaining T&A records to process timecards accurately.

## **E. Physical Security of Timecards**

With rising incidences of identity theft, it is imperative that the FMC ensures that employees' personally-identifiable information (social security numbers, birthdates, etc.) be safeguarded. Oftentimes, federal forms, especially those involving payroll, contain privacy information. Such information in the wrong hands can, at a minimum, damage an individual's credit rating, which can take months or years to remedy.

The GAO report entitled *Maintaining Effective Control over Employee Time and Attendance Report*, states that to achieve control objectives relative to T&A information, agencies should record, for each employee and pay period, the employee's name and a unique identifying number. The NFC-STAR system used by the FMC collects employee social security numbers for this purpose.

As part of our review of payroll processing, the OIG observed the handling of time cards, specifically whether they were maintained in locked cabinets or in other secured locations. It is critical that the forms be locked as several individuals have access to FMC offices after hours and could obtain personally identifiable information without detection. Further, individuals whose identities could be potentially stolen would not be aware of the theft until much damage was done.

The OIG observed that five of the 16 timekeepers (31 percent) did not secure the timecards in a locked cabinet or desk. Some of the timekeepers maintained the payroll information in binders located at their work space that could easily be accessed to obtain employee names and social security numbers. To protect employee information the FMC timekeepers should maintain and secure timecards and supporting documentation in a locked cabinet or desk.

## **F. Review of STAR Reports**

In 2002, the FMC began using the NFC to process its payroll and T&A transactions. Since its inception four years ago, OFM has instructed timekeepers to submit their STAR reports to staff in OFM before the records are transmitted to NFC. This control is in place to ensure that employees have certified their timecards, supervisors have reviewed the leave charges, and that employees are not "overdrawn" on their sick or annual leave accounts.

We surveyed 14 of 22 timekeepers to determine whether this layer of review identified errors or simply lengthened timecard processing times. Eleven of 14 timekeepers (79 percent) stated that OFM did not find any errors in their T&A records based on this review. However, three of the 14 timekeepers stated that OFM found errors in their T&A records. Notwithstanding timekeeper responses, OFM believes the review serves an important purpose.

### **G. Retention of T&A Records**

Pursuant to 36 CFR Ch. XII, Sec. 1220.38, agencies must ensure the proper, authorized disposition of their records, regardless of format or medium, so that permanent records are preserved and temporary records no longer of use to an agency are promptly deleted or disposed of in accordance with the approved records schedule when their required retention period expires.

The National Archives and Records Administration (NARA) Disposition of Federal Record Schedule Two, *Payrolling and Pay Administration*, requires that all time and attendance records maintained either by the agency or payroll processor be destroyed after a GAO audit or when six years old, whichever is sooner. The FMC's *Manual for the Disposal and Preservation of Records* (Draft) identifies the NARA Schedule 2 as authority for the disposition of its records. Based on NARA and internal guidance, and the dates of our fieldwork, timekeepers should retain time and attendance records for employees back to calendar year 2000.

The OIG found that timekeepers maintained payroll records for varying lengths of time. We spoke to 13 of the 16 timekeepers from other testing performed during the audit to determine how long T&A records were maintained. We found that three of the 13 timekeepers maintained T&A records beyond the six year-required timeframe (one maintained records through 1999 while records held by two other timekeepers went back to 1996).

### **H. Employee Personal Page**

The Office of Human Resources sent an e-mail to all employees instructing them to periodically review their LES through NFC's Employee Personal Page (EPP) to verify the accuracy of their salaries, deductions, and annual and sick leave balances. However, at the beginning of our audit we found five employees that could not access their LES to verify its accuracy.

We contacted the NFC representative and spoke to staff in OHR to determine the reasons for the inaccessibility. We were informed that NFC system was not producing and sending temporary passwords to individuals that requested them through the system from the Internet. NFC acknowledged that it was a system failure but the issue was compounded by Hurricanes in 2005 which made it impossible to correct timely<sup>4</sup>. Therefore, NFC sent passwords to employees through the mail. While FMC was waiting for NFC to correct the deficiency the OHR printed the employee's LES for their review of leave balances. Since our audit the five employees have been able to access the EPP to review their LES.

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<sup>4</sup> NFC offices are located in New Orleans, LA.

## **Recommendations**

To address the vulnerabilities identified in this audit, the OIG makes the following recommendations to the Director, Office of Administration:

### **Recommendation No. 1**

We recommend that timekeepers be instructed to annotate timecards to document employee non-certification of the timecards. (*Finding III B*)

### **Recommendation No. 2**

We recommend that OFM run an error report to identify employees with leave balance discrepancies and, in conjunction with timekeepers, reconcile the differences and make the necessary adjustments in the NFC's database or STAR report. (*Finding III C*)

### **Recommendation No. 3**

We recommend that OHR request leave audits on FMC-183 from timekeepers of departing or separating employees as part of the clearance from the Agency. The audit should reconcile form FMC-183 and the NFC-generated SF-1150. Any discrepancies should be corrected before the information is sent to the receiving agency or payment of lump sum for employees that are separating from the Federal government. (*Finding III C*)

### **Recommendation No. 4**

We recommend that once all corrections are made, assign specific staff to run error reports every pay period to identify and explain discrepancies, and alert pertinent timekeepers to the discrepancies for corrective action. (*Finding III C*)

### **Recommendation No. 5**

We recommend OFM reconsider the requirement on timekeepers to complete FMC Form-183 for employees every pay period. (*Finding III C*)

### **Recommendation No. 6**

We recommend the Director, Office of Administration instruct managers to enforce the use of FMC-109 for those that work a compressed schedule and encourage the use of FMC-109 for all staff as a means to enhance controls over leave transactions. (*Finding III D*)

### **Recommendation No. 7**

We recommend that timekeepers and their alternates be instructed to maintain timecards and supporting documentation in a locked cabinet or desk. (*Finding III E*)

### **Recommendation No. 8**

We recommend timekeepers be instructed to destroy time and attendance records prior to CY 2000 and to maintain T&A records for 6 years. (*Finding III G*)