



Department of Education

Internal Audit

Leave Accounting Follow-Up Review

Issue Date: January 2014

Report Number: FY2014-02

Department of Education
Leave Accounting Follow-Up Review

Executive Summary

AUDIT OF: Leave Accounting Follow-up Review	DATE: Fieldwork performed October 2013 – January 2014	AUDIT RATING: Acceptable [] Marginal [] Unacceptable [X]
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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 “*Leave Accounting Follow-Up Review*.” The purpose of this review was to assess the implementation of Management’s Plans as described in the “*Leave Data and Timekeeping Process Review*” issued in March 2010 and the “*Form G-2 Process Improvement Review*” issued in June 2011.

BACKGROUND:

Historically, the DOE has faced numerous issues with tracking and monitoring their vacation and sick leave records. As a result, the DOE has invested significant resources to address the issues (see Appendix for a timeline of issues). These efforts included: 1) Engaging a consultant to assist the DOE in reconciling employee leave balances to address the significant backlog, and 2) the implementation of the KRONOS software known to users as the Time and Attendance system (T&A). T&A is a timekeeping system that reflects an employee’s hours worked, including overtime, holidays and any leave (vacation, sick, or otherwise) taken. Based on the information entered, the system also calculates and retains employee leave balances. Another external consultant was also engaged to assist in the system implementation and to test the accuracy of the payroll data entered into the T&A system.

Employee time is auto filled in the T&A system and the timekeepers have primary responsibility for making adjustments to employee time (i.e., overtime, change in hours, leave, etc.). Timekeepers are also responsible for maintaining the appropriate documents in each employee’s file. Timekeepers are appointed by the Principal or Administrator of the school or office and are usually the School Administrative Services Assistant (SASA), Clerk, or Secretary. Some schools or offices have more than one timekeeper.

SCOPE and OBJECTIVES:

The scope of our review included an examination of management’s corrective action plans and the leave accounting process. We reviewed the operating effectiveness of the existing control procedures in place over the monitoring of leave accounting records, focusing on leave and “Increase in Hours” requests, approval, coding, data entry processes and compliance with leading practices. IA also performed detailed testing on a sample of employee leaves during the month of August 2013 for one (1) school/office from each of the 15 complex areas and one (1) office from each of the six (6) state offices for a total of 21 schools and offices.

The objectives of our review included the following:

1. To ensure that Management has adequately addressed and resolved the audit findings that resulted from the March 2010 Internal Audit “*Leave Data & Timekeeping Process Review*” and appropriately evaluated and implemented the recommendations from the June 2011 KMH LLP “*Form G-2 Process Improvement Review*.”
2. Test a sample of employees within the selected schools and offices to ensure that data entered into the T&A system is accurate, timely and properly supported and approved.

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OBSERVATIONS:

Based upon our review, we noted that the sixteen (16) audit findings and recommendations from both reviews are still recurring or have not been adequately addressed. Therefore, we found the DOE’s controls related to the leave accounting processes are still functioning at an “unacceptable” level as originally reported in the March 2010 Internal Audit “*Leave Data & Timekeeping Process Review.*” An unacceptable rating indicates that significant observations were noted that could lead to material financial loss to the DOE.

IA noted that while some improvements have been made to the leave accounting processes; issues were still noted, and if not corrected, could result in faulty leave data and backlogs in perpetuity. In evaluating the issues noted during our review, it appears that the root cause is the lack of an effective infrastructure (i.e. policies, documented processes, clearly articulated roles, responsibilities and accountability, internal monitoring reports, methodologies and a system that meets organization’s requirements) for the leave accounting processes.

The following is a status summary of the prior audit findings, corrective action plans by management [Office of Fiscal Services (OFS), Office of Human Resources (OHR) and Office of Information Technology Services (OITS)] and the related current observations:

Leave Data and Timekeeping Process Review, March 2010		
Prior Audit Finding	Management’s Corrective Action Plan Status	Current Observation Testing Results
Lack of current, accessible leave and administrative policies	<i>OFS-Partially Completed</i> – Time and Attendance manual was updated. However, leave policies have not been updated or aligned with the Bargaining Unit Agreements, nor has the Standard Practices been completed.	Finding still exist, see observation 1
Lack of useful tools and processes to ensure success	<i>OFS-Completed</i> – A Time and Attendance checklist has been developed and disseminated to the field.	Finding still exist, see observation 2
Need for mandatory and effective Timekeeper training	<i>OFS-Completed</i> – A comprehensive training developed with representatives from OHR, OFS and OITS was conducted in June 2011. An electronic leave accounting training is also in development.	Finding still exist, see observation 3
Need for an appropriate tone at the top and greater employee accountability	<i>OFS-Completed</i> – Superintendent issued memos reminding the field of leave policies, payroll overpayments and retirement procedures.	Finding still exist, see observations 3 and 4
Timekeeping system (T&A) not meeting certain business objectives	<i>OFS-Outstanding</i> – Due to T&A’s limited capabilities, Management is currently awaiting the state implementation of the Enterprise Resource Planning (ERP) system.	Finding still exist, see observation 2

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Form G-2 Process Improvement Review, June 2011		
Prior Audit Recommendation	Management's Corrective Action Plan Status	Current Observation Testing Results
Dizzying array of leave rules	<i>OHR-Partially Completed</i> –Standard Practices are pending union consultation and SASA/Secretary Academy training will include a leave of absences module. <i>OFS</i> – will meet in February 2014 to discuss the outstanding findings and will inform IA of their corrective action plans.	Finding still exist, see observation 1
OHR should codify DOE leave policies and rules	<i>OHR-Partially Completed</i> –Standard Practices are pending union consultation and SASA/Secretary Academy training will include a leave of absences module.	Finding still exist, see observation 1
Leave taken should be supported by required documentation	<i>OHR-Partially Completed</i> –Standard Practices are pending union consultation and SASA/Secretary Academy training will include a leave of absences module. <i>OFS</i> – will meet in February 2014 to discuss the outstanding findings and will inform IA of their corrective action plans.	Finding still exist, see observation 3
An employee leave file is needed	<i>OHR-Partially Completed</i> –Standard Practices are pending union consultation and SASA/Secretary Academy training will include a leave of absences module. <i>OFS</i> – will meet in February 2014 to discuss the outstanding findings and will inform IA of their corrective action plans.	Finding still exist, see observation 1
Adjustments to leave balances should be made in the current period.	<i>OITS-Partially Completed</i> – As of 2012, the practice of opening past history has been limited to specific scenarios by OFS.	Issue not tested

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<p>T&A needs to be periodically tested for reliability</p>	<p><i>OITS-Partially Completed</i> – The only testing of the system was by Accuity, LLP, an accounting/consulting firm, whom was hired to do parallel testing of manual payroll and automated payroll payments. They identified issues and bugs in the system. However, DOE decided not to implement the system to automate payroll.</p> <p><i>IA</i>- In the current audit, IA tested a sample of Form 7s to see if the accrual of leave was accurate, but the system itself has not been tested.</p>	<p>Issue not tested</p>
<p>Employees should verify accuracy of T&A leave account balances</p>	<p><i>OHR-Partially Completed</i> –Standard Practices are pending union consultation and SASA/Secretary Academy training will include a leave of absences module.</p> <p><i>OFS</i> – will meet in February 2014 to discuss the outstanding findings and will inform IA of their corrective action plans.</p>	<p>Finding still exist, see observation 2</p>
<p>Periodic verification of supporting leave documentation should be performed</p>	<p><i>OHR-Partially Completed</i> – Standard Practices are pending union consultation and SASA/Secretary Academy training will include a leave of absences module.</p>	<p>Finding still exist, see observation 4</p>
<p>Processing should not substitute for accurate and timely leave accounting</p>	<p><i>OFS</i> – will meet in February 2014 to discuss the outstanding findings and will inform IA of their corrective action plans.</p>	<p>Finding still exist, see observation 4</p>
<p>Segregate G-2 processing responsibilities</p>	<p><i>OFS</i> – will meet in February 2014 to discuss the outstanding findings and will inform IA of their corrective action plans.</p>	<p>Finding still exist, see observation 4</p>
<p>Improved Form G-2 tracking system will save staff time and improve management’s ability to plan workload</p>	<p><i>OFS</i> – will meet in February 2014 to discuss the outstanding findings and will inform IA of their corrective action plans.</p>	<p>Issue not tested</p>

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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 acknowledged our findings and stated that the current leave accounting system has an overwhelming transaction volume, it is a manually intensive system, and schools and offices have other educational priorities.

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 audit observations are as follows:

1. Lack of current and accessible leave and administrative policies and procedures.
2. Lack of oversight and monitoring at the school/office level
3. Need for a stronger tone at the top and greater accountability at the school/office level
4. Lack of ownership, monitoring and accountability of the leave accounting process

A condensed version of this report will be provided to each school or office informing them of the findings specifically related to their school or office. Each school/office will be asked to prepare a written corrective action response to each finding for submission to IA.

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.

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Rating Scale Definitions

OVERALL RATING SCALE	
<i>Acceptable</i>	No significant deficiencies exist, while improvement continues to be appropriate; controls are considered adequate and findings are not significant to the overall unit/department.
<i>Marginal</i>	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.
<i>Unacceptable</i>	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	
<i>High (1)</i>	<p>1 - The impact of the finding is <i>material</i>¹ and the likelihood of loss is probable in one of the following ways:</p> <ul style="list-style-type: none"> • 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. <p><i>Immediate action is recommended to mitigate the DOE’s exposure.</i></p>
<i>Moderate (2)</i>	<p>2 - The impact of the finding is <i>significant</i>¹ and the likelihood of loss is possible in one of the following ways:</p> <ul style="list-style-type: none"> • 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. <p><i>Corrective action by management should be prioritized and completed in a timely manner to mitigate any risk exposure.</i></p>
<i>Low (3)</i>	<p>3 - The impact of the finding is moderate and the probability of an event resulting in loss is possible.</p> <p><i>Action is recommended to limit further deterioration of controls.</i></p>

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

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Observations and Recommendations

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. Many of these findings are repeat findings from the March 2010 Internal Audit “*Leave Data & Timekeeping Process Review.*”

Obs. No	Description	Page #
1	Lack of current and accessible leave and administrative policies and procedures	8
2	Lack of oversight and monitoring at the school/office level	12
3	Need for a stronger tone at the top and greater accountability at the school/office level	15
4	Lack of ownership, monitoring and accountability of the leave accounting process	19

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Observations and Recommendations

Observation Number: 1	
Observation: Lack of current and accessible leave and administrative policies and procedures	Rating: 1
<p>This current observation is a repeat finding (Observation 1) from the March 2010 Internal Audit “Leave Data & Timekeeping Process Review.” According to management’s corrective action plan from the prior review, they are only “partially completed” because though they have updated the Time and Attendance manual in May 2012, they are still working on creating Standard Practices (SPs) regarding leave accounting. Currently, schools and offices are still relying on the handbooks and through further detailed testing by IA, non-compliance to policies and procedures still exist.</p> <p>Leave and Administrative Policies and Procedures for Classified and Certificated Employees are documented in their respective personnel handbooks, the Classified Personnel Handbook and the School Code Certificated Personnel Policies and Regulations (Certificated Personnel Handbook). Some leave procedures are also documented in the Business Office Handbook – Accounting and Payroll – Volume I-A. Any changes, updates, or further detail to these Policies and Procedures is communicated to staff through interoffice memos via email or Lotus Notes Memos and Notices. While there are a few matrices that effectively summarize selected leave rules, IA noted that this current method of documenting and communicating Leave and Administrative Policies is inadequate to prevent errors and/or noncompliance with the Collective Bargaining Unit (BU) agreements. The following are internal control design issues related to the current process of documenting and communicating policies:</p> <p>1. Handbooks are Outdated</p> <p>The Certificated Personnel Handbook was approved by the Board of Education (BOE) in June 1986. However, until the SPs are finalized, employees should be referencing the Certificated Personnel Handbook.</p> <p>According to the copy of the Classified Personnel Handbook that IA reviewed, the Classified Personnel Handbook was revised periodically in the 1990s. (i.e., Personnel Rules and Regulations updated in July 1994, Rules and Regulation on Vacation & Sick Leave updated in June 1992). The handbook is outdated as some of the rules have since changed or been repealed. In order to ensure that current rules are being followed, employees should be referencing the Collective Bargaining Unit (BU) agreements and/or the Hawaii Administrative Rules. It is unclear whether this was also communicated to all DOE employees. IA did not perform a full review of the BU contracts against the Classified Personnel Handbook.</p> <p>The Business Office Handbook – Accounting and Payroll – Volume I-A was also periodically updated in the 1990s. This handbook is also outdated as some of the rules have since changed or been repealed.</p> <p>Based on our review, IA noted that because handbooks were not updated, certain areas of leave accounting are not addressed by the DOE in its policies and procedures:</p> <ul style="list-style-type: none">• Sign-in Sheet requirements for employees• Requirement of an “Employee Leave File” (includes only leave request forms and Form 7s) that follows employee if they move positions.	

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Observations and Recommendations

2. References are not Centrally Located and User Friendly

Based on IA’s review, policies and procedures including, handbooks are difficult to locate and are not centrally located. In most cases, employees will contact staff in OHR, Leave Accounting, Payroll, or other timekeepers to understand certain rules. This is not the most efficient process and may increase the risk of receiving inaccurate information.

Leave and Administrative related policies and procedures are also documented in various memos and matrices. Memos are posted in the Lotus Notes library (“Memos and Notices”). Although these memos are accessible by all schools and offices, improvements are warranted such that users can access the necessary information efficiently. Memos are not organized by subject area. They are organized by Office and Date and can be organized alphabetically by title. As such, when an issue arises, an employee must perform a key word search in order to locate the relevant subject area. Depending on how the memo was written (i.e., “BU 05” vs. “Certificated Employees”), multiple searches may be necessary to ensure that all applicable memos are found.

Collective BU agreements and the Hawaii Administrative Rules can also be cumbersome to read and may not sufficiently explain how rules should be applied in operations or may not address certain circumstances. As a result, employees will often contact others for clarification.

IA tested 1,793 leave transactions and the following exceptions noted during fieldwork further support the need for a comprehensive and user-friendly resource to provide employees with a better understanding of the leave and administrative policies and procedures.

Authority	Exception	Impact/Potential Impact
According to procedure 5404 of the Certificated Personnel Policies and Regulations, <i>Employee Responsibilities</i> , the employee is responsible to complete Form 400/DOE OHR 300-001 form (application for sick leave) and submit it to the immediate supervisor on the first day of return.	IA noted sixteen (16) instances where an employee did not submit the sick leave request form on the first day of return.	Noncompliance with school policy.
According to Collective BU agreements 01, 03, 04, 09, 10, and 13 etc. for classified employees, the employee is required to file the application for sick leave within five (5) working days after return to duty.	IA noted twenty (20) instances where an employee did not file their application for sick leave within five days of returning to work.	Noncompliance with BU requirements.

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	<p>Per contract agreements for BU 01, 03, 04, and 13, if an employee is on leave without pay both before and after a Holiday; the employee is considered to be on leave without pay on the Holiday as well and therefore, should not be paid. Based on our discussions with the T&A staff, it is the timekeeper’s responsibility to be aware of this rule and adjust the Holiday hours accordingly.</p>	<p>IA noted two (2) instances where an employee’s Holiday hours were not properly adjusted according to this rule.</p>	<p>When a leave of absence without pay is taken, the employee’s leave benefits is adjusted according to the actual hours worked. As such, this error may lead to inaccurate leave balances.</p>
Impact			
<p>The lack of current and accessible leave and administrative policies and procedures can lead to:</p> <ul style="list-style-type: none"> ➤ Inefficiencies due to employees fielding questions, the cumbersome manual processes in maintaining and accessing leave rules, etc. ➤ Noncompliance and data integrity issues as a result of employees receiving inaccurate information or simply not being aware of certain rules ➤ Additional time and costs associated with correcting errors (i.e., hiring consultants) 			
Recommendation			
<ul style="list-style-type: none"> ➤ OHR, in conjunction with OFS, should update leave policies and procedures (i.e. SPs) that align with the BU agreements, include employee responsibilities, and summarize the different leave accounting rules. Consider using the Leave Accounting Reference Manual, as noted by KMH LLP in the “Form G-2 Process Improvement Review.” ➤ Consider creating policies and procedures for 1) requiring sign-in sheets for all employees and 2) maintaining an employee leave file for all employees. ➤ Place all policies and procedures in a centralized location, along with contact information if timekeepers have questions. ➤ Any changes to the policies should be updated directly on the SPs to ensure that all information remains on one document. Employees can be notified that updates were made via email or Lotus Notes. ➤ Training should be given to Principals/Administrators and Timekeepers once policies and procedures are updated. 			
Management Plan			
<p><u>OHR Management Plan:</u> An office under the Office of the Superintendent was created to coordinate and implement OHR’s SPs. The office had technical issues; whereby, OHR’s SPs were put on hold. SPs had to be reviewed again and are now in final draft pending union consult and confer. Once OHR’s SPs are finalized, they will be maintained and updated on the OHR SP website, OHR will ensure that all changes will be updated on a timely basis.</p> <p>However, even with updating Leave Policies and Procedures thru the SPs, timekeepers have a workload issue and are not able to keep up with the cumbersome manual leave process. There is a high risk in maintaining or updating leave records accurately due to the cumbersome manual process.</p>			

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As for maintaining an employee leave file for each employee, OHR will be distributing the Official Personnel Folders (OPF)/Employment-related Personnel Files (EPF) Reference Material to the schools/offices by March 2014. The Reference Material is recommending a separate employee leave file to be maintained by schools/offices with retention and disposition requirements.

OHR is working with the administrator of the SASA Academy to include a module on leaves, which will include leave policies. Also, a module on Employee Folders will include leave record retention and disposition requirements. Personnel Regional Officers (PROs) in OHR will be providing leave policy training to the Principals/Administrators.

Anticipated Completion Date: December 2014

Contact Person: Glenn Kunitake, Personnel Specialist, Records and Transactions Section, OHR

OFS Management Plan:

- OFS will update and maintain Leave Accounting procedures to implement the Leave Policies and SPs established by OHR.
- OFS will provide guidance on sign-in sheets. OFS will work with OHR on procedures for employee leave files.
- OFS will centralize and maintain Leave Accounting procedures on the OFS website and provide contact information for timekeepers.
- Training will be provided through the SASA Academy.

Anticipated Completion Date: December 2014

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

Responsible Party

OFS/OHR

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Observations and Recommendations

Observation Number: 2				
Observation: Lack of oversight and monitoring at the school/office level				Rating: 1
<p>This current observation is a repeat finding (Observation 2) from the March 2010 Internal Audit “Leave Data & Timekeeping Process Review.” According to management’s corrective action plan from the prior review, they completed the development of a “Timekeeper Checklist” which was distributed to the field; however, through further detailed testing by IA, data entry errors and non-compliance to policies and procedures still exist.</p> <p>The following are internal control design issues related to the processing and monitoring of leave accounting at the school/office level:</p> <p>1. Lack of oversight and monitoring of leave data and timekeeping processes</p> <p>Due to the lack of segregation of duties at the school/office level it is very important that the Principal or Administrator properly review and monitor the leave accounting documents. It is also important for employees and administrators to review their “Record of Absence from Official Duty”, Form 7 periodically to ensure the leave records are accurate.</p> <p>During the review, IA was informed by a Complex Area Business Manager (CABM) that one of the schools selected for testing was not going to submit any leave records as it was just discovered that the timekeeper had not updated the school’s leave records since 2007. IA was unable to test this school as they were in the process of updating their leave records.</p> <p>Based on IA’s review several data entries occurred that could have been avoided if the Form 7 had been reviewed. IA tested 1,793 total leave transactions and 66 “increase in hours” transactions. The following table summarizes these errors:</p>				
	Data entry error	# of data entry exceptions noted	% of data entry exceptions noted	Impact/Potential Impact
A.	Leave data entered into T&A did not agree (i.e. different day of leave, type of leave, or amount of leave) to the employee’s respective sign-in sheet.	21/1,793	1.17%	Inaccurate leave balances
B.	Leave data entered into T&A did not agree (i.e. different day of leave, type of leave, or amount of leave) to the employee’s respective leave request form.	16/1,793	0.89%	Inaccurate leave balances
C.	Leave hours were not entered into the T&A system based on submitted leave request form.	94/1,793	5.24%	Leave balances are overstated
D.	Leave hours were not entered into the T&A system based on sign-in sheet.	106/1,793	5.91%	Leave balances are overstated

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E.	“Increase in hours” (additional hours worked by part time employees paid at regular time) were incorrectly recorded on the wrong date.	3/66	4.54%	Inaccurate payroll data
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¹Although there is not a policy that the employee must sign-in when present, if the employee was not signed in on their sign-in sheet, IA noted the employee as absent. IA only included schools/offices that had sign-in sheets.

2. Reporting necessary ‘leave without pay’ (LWOP) information to OHR and Payroll

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.

Based on our review of 200 LWOP transactions, IA noted the following:

- For eight (8) of the exceptions noted (4% of LWOP transactions), the respective LWOP leave request forms were not forwarded to the AS/CAS or PRO for an additional approval.
- For nine (9) of the exceptions noted (4.5% of LWOP transactions), the employee did not have a Form 5 indicating they were on LWOP, resulting in a possible overpayment.

3. Making the appropriate manual adjustments

As previously stated in Observation 1, IA noted two (2) instances where an employee’s Holiday hours were not adjusted when an employee was on leave without pay. Since this is the timekeeper’s responsibility, it would be helpful to have this included as part of the “Timekeeper Checklist” to ensure that the task is completed. IA also noted one (1) instance where an employee’s leave accruals (10-month employee with leave hours earned in the beginning of the school year) were not adjusted for the employee’s LWOP.

Impact

The lack of oversight and monitoring at the school/office level can lead to:

- Inaccurate employee leave balances
- Overstatement of leave balances and payroll overpayments
- Delays in vacation and retirement payouts, which can lead to penalties assessed
- Non-compliance with BU agreements

Recommendation

- Management should update their “Timekeeper Checklist” with reminders about LWOP procedures and adjustments.
- Performing periodic monitoring of leave records by Principals/Administrators or CABMs.
- Consider enforcing a requirement for Timekeepers to issue Form 7s at least annually in accordance with the collective bargaining contracts.
- Consider reviewing staffing resources at the school/office level if the timekeeper is unable to perform their leave responsibilities.

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- Consider developing accountability measures for schools/offices that do not update their leave records on a timely basis or create payroll overpayments.
- Training to Principals/Administrators and Timekeepers.

Management Plan

OHR Management Plan

OHR is working with the administrator of the SASA Academy to include a module on leaves, which will include leave policies. Also, a module on Employee Folders will include leave record retention and disposition requirements. PROs in OHR will be providing leave policy training to the Principals/Administrators.

Anticipated Completion Date: December 2014

Contact Person: Glenn Kunitake, Personnel Specialist, Records and Transactions Section, OHR

OFS Management Plan

- OFS will update the Timekeeper's Checklist with reminders of the LWOP procedures and adjustments.
- OFS will provide guidance to Principals/Administrators and CABMs on monitoring leave records.
- Though OFS has no control over the staffing resources at the school level, we will develop a monitoring tool for CASs, CABMs and Administrators to identify schools/offices that have not entered leave accounting information on a timely basis and to help to determine if schools/offices need additional clerical staffing resources.
- OFS will provide guidance for Timekeepers to comply with applicable union contract requirements to issue Form 7s at least annually.
- Training will be provided through the SASA Academy.

Anticipated Completion Date: December 2014

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

Responsible Party

OFS/OHR

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Observations and Recommendations

Observation Number: 3
Observation: Need for a stronger tone at the top and greater accountability at the school/office level Rating: 1
<p>This current observation is a repeat finding (Observations 3 and 4) from the March 2010 IA “Leave Data & Timekeeping Process Review.” According to management’s corrective action plan from the prior review, they completed a comprehensive training with representatives from OHR, OFS and OITS; however, through further detailed testing by IA, non-compliance to policies and procedures still exist.</p> <p>A significant element of the leave accounting processes success is having a stronger tone at the top to ensure greater employee accountability and compliance with policies and procedures. Establishing a stronger tone at the top may require a refresher course for Principals/Administrators that reiterate the importance of complying with internal processes. This message can then be communicated to their personnel.</p> <p>The following are issues related to the need for a stronger tone at the top and greater accountability at the school/office level presented by topic: 1) Leave, 2) Overtime and Compensatory Time Off and 3) Data Entry Timeliness.</p> <p>1. Leave</p> <p>Based on our review of 1,793 leave transactions, the following issues were noted:</p> <ol style="list-style-type: none">1. <u>No leave request form</u> – 285 exceptions IA noted 285 occasions where the employee was absent and did not submit a leave request form. Although there is not a policy that the employees must sign-in when present, if the employee was not signed in on their sign-in sheet, IA noted the employee as absent. IA only included schools/offices that had sign-in sheets.2. <u>Personal/Vacation Leave approved after the fact (ATF)</u> – 37 exceptions According to the available resources including the <i>Leave Codes Chart</i> dated September 2011, prior approval is required for personal and vacation leave. These exceptions represent those instances where personal or vacation leave was approved after the leave was taken.3. <u>Proper support not submitted for sick leave absences</u> – 4 exceptions Classified Employees are required to submit a physician’s note for absences of 5 days or more and for Certificated Employees, a note is required for absences greater than 5 days.4. <u>Patterns of Potential Abuse</u> – 2 exceptions In reviewing leave taken for the sample of employees selected, IA noted two (2) occasions where employees took a combination of leave which appeared suspect. In each case, the employee took a combination of sick leave and personal leave over a period of 9 days. Each was a Certificated Employee who is required to submit a doctor’s note when sick leave of more than five (5) consecutive days is taken.5. <u>Leave request forms not completed properly</u> – 61 exceptions In reviewing leave request forms, IA noted the following:<ul style="list-style-type: none">• Thirty (30) occasions where the leave request form was not completed with all information;• Fourteen (14) occasions where the leave request form had an incorrect leave code indicated;• Four (4) occasions where the leave request form had the incorrect BU number indicated;

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Observations and Recommendations

- One (1) occasion where the supervisor did not sign the leave request form.
- Twelve (12) occasions where the supervisor did not indicate an approval date on the leave request form. As such, IA could not determine whether leaves were approved in a timely manner.

2. Overtime and Compensatory Time Off

Our review also uncovered issues with respect to overtime and compensatory time off. At the DOE, overtime must be preapproved by the AS/CAS using Form BP2, "Request for Overtime". On June 30, 2009, the "Budget Cuts and Cost-Savings Measures – Overtime Restrictions" memo was issued to the DOE which severely restricted overtime for employees effective July 1, 2009. As a result, overtime is now highly discouraged and scrutinized. Based on our review of employee sign in sheets, we noted three (3) employees in the sample selected who worked overtime but did not complete Form BP2, instead completed an "Overtime Log" which was preapproved by their Administrator. These employees were not paid for overtime, instead they tracked any additional hours worked on their "Overtime Log" so that compensatory time off could be taken at a later date. Compensatory time was not tracked in the T&A system. Based on IA's understanding this informal practice was allowed by the Supervisors. An informal process to track overtime and compensatory time off can place the DOE at risk as the Collective BU agreements (for units 01, 03, 04, 09, and 13) include specific requirements regarding overtime and compensatory time off.

3. Data Entry Timeliness

Based on the detailed testing performed for time entries during the month of August, IA noted that all of the 21 schools and offices selected either made several entries that did not meet the T&A deadline or did not record all of their leave entries. IA noted 210 transactions that were entered late into the T&A system. According to the T&A staff, the T&A deadlines are driven by the Department of Accounting and General Services (DAGS) deadline to ensure that employees are paid on a timely basis.

The importance of entering data in the system on a timely basis needs to be stressed for several reasons:

1. To ensure employee pay is accurate

IA understands that the goal is to eventually have ERP link leave transactions with the payroll system, making it more important that data is accurate and current. In order to prepare for this, the DOE must be diligent in emphasizing the importance of entering data timely.

2. To avoid Historical Entries

Once a period is closed, data entries must be made as a Historical Entry. The process to enter data using the Historical Entry module differs from entering data directly in the employee's timecard when the pay period is open. IA also noted that historical entries affect the leave accruals based on the date the historical entry was made and not the date of the historical entry.

3. To ensure that leave balances remain current

Leave backlogs can cost the DOE funds either due to payroll overpayments, penalties or hiring consultants to update leave records. As previously noted in observation 2, this is a problem as shown by one (1) school not updating their leave records since 2007. IA also noted that 14 of the 21 schools and offices selected did not enter all of their leave transactions in T&A, including one (1) office that did not update their leave records for the month of August.

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Observations and Recommendations

Impact
<p>The lack of accountability at the school/office level can lead to:</p> <ul style="list-style-type: none">➤ Inaccurate employee leave balances➤ Continuous abuse of leave policies and procedures➤ Overstatement of leave balances and payroll overpayments➤ Delays in vacation and retirement payouts, which can lead to penalties assessed.➤ Non-compliance with BU agreements
Recommendation
<ul style="list-style-type: none">➤ Performing periodic monitoring of leave records by Principals/Administrators or CABMs.➤ Consider enforcing a requirement for Timekeepers to issue Form 7s at least annually in accordance with the collective bargaining contracts.➤ Consider reviewing staffing resources at the school/office level if the timekeeper is unable to perform their leave responsibilities.➤ Consider developing accountability measures for schools/offices that do not update their leave records on a timely basis and create payroll overpayments.➤ Training to Principals/Administrators and Timekeepers to reinforce the rules, clarify inconsistencies/misunderstandings of the rules and to increase their awareness of common leave accounting findings.
Management Plan
<p><u>OHR Management Plan</u></p> <p>OHR is working with the administrator of the SASA Academy to include a module on leaves, which will include leave policies. Also, a module on Employee Folders will include leave record retention and disposition requirements. PROs in OHR will be providing leave policy training to the Principals/Administrators.</p> <p>Anticipated Completion Date: December 2014</p> <p>Contact Person: Glenn Kunitake, Personnel Specialist, Records and Transactions Section, OHR</p> <p><u>OFS Management Plan</u></p> <ul style="list-style-type: none">➤ OFS will provide guidance to Principals/Administrators and CABMs on monitoring leave records.➤ Though OFS has no control over the staffing resources at the school level, we will develop a monitoring tool for CASs, CABMs and Administrators to identify schools/offices that have not entered leave accounting information on a timely basis and to help to determine if schools/offices need additional clerical staffing resources.➤ OFS will provide guidance for Timekeepers to comply with applicable union contract requirements to issue Form 7s at least annually.➤ Training will be provided through the SASA Academy.

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Anticipated Completion Date: December 2014

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

Responsible Party

OFS/OHR

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Observations and Recommendations

Observation Number: 4	
Observation: Lack of Ownership, Monitoring and Accountability of the Leave Accounting Process	Rating: 2
The following are internal control design issues related to the leave accounting process:	
1. Lack of ownership and accountability of the leave accounting process Based on IA’s review, it appears that there is a lack of ownership when it involves monitoring the leave accounting process and overseeing that policies and procedures are updated timely. Schools/offices are confused as to which office to call when they need help with their leave accounting. Leadership needs to determine each office’s responsibilities (i.e. updating policies and procedures, monitoring, or updating T&A system) in order for the leave accounting process to succeed.	
2. Lack of monitoring schools and office’s leave records As stated in the Observation 3, IA noted that all of the 21 schools and offices selected either made several entries that did not meet the T&A deadline or did not record all of their leave entries. IA also noted one (1) school had not updated their leave records since 2007 and one (1) office had not updated their leave records in T&A for the month of August. IA noted that Management did not verify whether schools/offices were current with their leave records. IA also noted that due to a staff shortage in the Operations Section of OFS, effective October 2012, no staff is assigned to assist with Leave Accounting functions. Management is currently awaiting the implementation of the state’s ERP system, which they estimated to have the human resources/payroll module implemented in 2017. Based on IA’s discussion with Management, due to the discovery of the current backlog of leave records at the one school, Management has instructed the CABMs to verify if their schools’ leave records are current.	
3. Lack of consequences and enforcement for violation of leave accounting policies. IA noted that there is no consequence to schools/offices that do not update their leave records on a timely basis. The only known penalty that may be issued to schools/offices is in accordance with Section 88-74.5 of the Hawaii Revised Statutes, which states that all state departments or agencies will be assessed a monthly fine for each Form G-2 which is not submitted to the State Employees’ Retirement System (ERS) within 90 days of the date of retirement. In the event that the 90-day deadline to ERS is not met, any penalty assessed by ERS will be charged to the respective school/office responsible.	
4. Improper Segregation of Duties This is a repeat finding (Observation 5) from the March 2010 Internal Audit “Leave Data & Timekeeping Process Review.” Proper segregation of duties is a key control point, especially for information systems in order to prevent fraud and abuse from the actions of one person. Leading practices suggest that data entry responsibilities can conflict with help desk and support responsibilities. Based on our review, IA noted one (1) T&A employee who performed both data entry and help desk responsibilities. The employee was both an administrator and timekeeper. This current structure is a control weakness as it allows a single person to carry out and conceal errors.	

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Observations and Recommendations

Impact
<p>The lack of ownership, monitoring and accountability of the leave accounting process can lead to:</p> <ul style="list-style-type: none"> ➤ Inefficiencies due to employees fielding questions, the cumbersome processes in maintaining and accessing leave rules, etc. ➤ Noncompliance and data integrity issues as a result of employees receiving inaccurate information or simply not being aware of certain rules ➤ Additional time and costs associated with correcting errors (i.e., hiring consultants) ➤ Continuous abuse of leave policies and procedures ➤ Loss of funds due to payroll overpayments and penalties assessed by ERS for non-submission of leave balances.
Recommendation
<ul style="list-style-type: none"> ➤ Assistant Superintendents should meet to discuss responsibilities of each office regarding leave policies, procedures and monitoring. ➤ Perform periodic monitoring and testing of leave records by CABMs. ➤ Consider enforcing a requirement for Timekeepers to issue Form 7s at least annually in accordance with the collective bargaining contracts. ➤ Consider developing accountability measures for schools/offices that do not update their leave records on a timely basis and create payroll overpayments. ➤ Training to Principals/Administrators and Timekeepers ➤ Enforce proper segregation of duties for timekeepers and system administrators.
Management Plan
<p><u>OHR Management Plan</u> After discussion with OFS, it was agreed that OHR is responsible for leave policies and procedures through pending SPs. OFS is responsible for leave accounting procedures, which include leave audits and reconciliation.</p> <p>OHR is working with the administrator of the SASA Academy to include a module on leaves, which will include leave policies. Also, a module on Employee Folders will include leave record retention and disposition requirements. PROs in OHR will be providing leave policy training to the Principals/Administrators.</p> <p>Anticipated Completion Date: December 2014</p> <p>Contact Person: Glenn Kunitake, Personnel Specialist, Records and Transactions Section, OHR</p> <p><u>OFS Management Plan</u></p> <ul style="list-style-type: none"> ➤ OFS will work with OHR to define roles and responsibilities regarding leaves. In general, OHR will develop Leave Policies and SPs, and OFS will develop and maintain Leave Accounting Procedures to implement the Leave Policies and SPs established by OHR. ➤ OFS will provide guidance to Principals/Administrators and CABMs on monitoring leave records.

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Observations and Recommendations

- OFS will provide guidance for Timekeepers to comply with applicable union contract requirements to issue Form 7s at least annually.
- Training will be provided through the SASA Academy.

Anticipated Completion Date: December 2014

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

OITS Management Plan

In order to ensure proper segregation of duties, the System Administrator will not have any data entry responsibilities in T&A effective January 2014.

Anticipated Completion Date: January 2014

Contact Person: Wayne Morneau, DP Specialist, Enterprise Systems Branch, OITS

Responsible Party

OHR/OFS/OITS

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Acknowledgements

We would like to take this opportunity to thank the all the individuals who made themselves and the requested information available to us for their courtesies and considerable cooperation.

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The following is a timeline summary of events related to the DOE's leave accounting process and records:

Date	Description
September 2002	<p>The DOE's newsletter "Superintendent's Highlights of Support Services" reported that "For years the department has been unable to maintain current leave records for our employees". This resulted in a lag in payments to retirees for earned vacation time.</p> <p>The newsletter stated that the issue was being resolved through added staff that will concentrate its efforts entirely on catching up on our employee leave records.</p>
January 2003 & February 2004	<p>Grant Thornton LLP issued its report on the Financial Audit of the Department of Education, State of Hawaii for the fiscal year ended June 30, 2002. Testing performed as part of this audit indicated that employee leave records did not agree with DOE leave records underlying Payroll.</p> <p>Report recommendations as follows:</p> <p><i>"We recommend that schools complete and submit all of the Form G-1 or Form 400A records in a timely and accurate manner in order for the payroll department to have up-to-date supporting records. In addition, we also recommend that the payroll department send reports of total accrued vacation hours to each employee for reconciliation and certification. Errors that are noted during this process should be noted and corrections made as necessary. The reconciliation process should take place at least once a year. We believe that these procedures are necessary because the differences between the payroll department's records and the schools' Form 7 records may continue to exist and it will be uncertain whether employees are taking the appropriate number of vacation hours."</i></p> <p>A similar finding and recommendation was also reported by Grant Thornton LLP in its Report on Internal Control over Financial Reporting and on Compliance and Other Matters for the fiscal year ended June 30, 2003.</p>
February 2005 & February 2006	<p>Nishihama and Kishida, CPA's, Inc. issued its report on the Financial Audit of the Department of Education, State of Hawaii for the fiscal year ended June 30, 2004. In its Report on Internal Controls over Financial Reporting and on Compliance and Other Matters, the auditor identified the following errors in leave records:</p> <ul style="list-style-type: none"> • Inconsistencies in leave balances between leave calculated by the computerized leave accounting system and those included on Form 7 • Improper inclusion of terminated employees in reported balances • Application for Leave of Absence was post dated or not dated • No indication the Application for Leave of Absence was approved • Date of absence per Form 7 did not agree to the Application for Leave of Absence • Data included in leave accounting system is incomplete <p>Report recommendation as follows:</p> <p><i>"The DOE should establish a monitoring system to ensure that the schools prepare leave documents completely and accurately, and submit the necessary leave documents to the</i></p>

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	<p><i>Payroll Section in a timely manner.”</i></p> <p>A similar finding and recommendation was also reported by Nishihama and Kishida, CPA’s, Inc. in its Report on Internal Control over Financial Reporting and on Compliance and Other Matters for the fiscal year ended June 30, 2005.</p>
March 2007	<p>Nishihama and Kishida, CPA’s, Inc. issued its report on the Financial Audit of the Department of Education, State of Hawaii for the fiscal year ended June 30, 2006. In its Report on Internal Controls over Financial Reporting and on Compliance and Other Matters, the auditor quantifies one of the reconciling items between the employee leave records and the DOE’s leave records to be the improper inclusion of over 2,000 terminated employees in its vacation records and over 7,000 terminated employees in its sick leave records. As of June 30, 2006 vacation and sick leave balances were estimated to be overstated by approximately, \$19M and \$428M, respectively.</p> <p>Report recommendations as follows:</p> <p><i>“The DOE should improve its leave reporting system to ensure accurate and current information. To achieve this, the DOE should re-examine its process of compiling leave information for financial reporting purposes including determination of the best source for timely and accurate data whether it is from the payroll system, personnel system, other existing system, or a combination of systems. The DOE should also establish and implement procedures to review the leave information and adjust the information to prepare timely reports that are reasonably stated. The DOE should also establish and implement procedures to make adjustments for significant errors detected.”</i></p>
September 2007	<p>The DOE engaged KMH LLP (KMH), to assist the DOE in reconciling employee leave balances to address the significant backlog of leave balances. Scope of work as determined by the DOE for the Leave Accounting Project was as follows:</p> <ul style="list-style-type: none"> • 10-Month Certificated – reconciliation from SY `03-`04 to SY `06-`07 • 10-Month Classified – reconciliation from SY `04-`05 to SY `06-`07 • 12-Month Certificated – reconciliation from SY `97-`98 to SY `06-`07 • 12-Month Classified – reconciliation from CY `02 to CY `07 <p>The scope was recently amended to “catch-up” all categories through SY `08-`09.</p>
March 2008	<p>Accuity LLP issued part 3 (of 9) of its Management and Fiscal Assessment of the Office of Human Resources, Department of Education, State of Hawaii on employee separation. Specific to leave accounting, the assessment reported that the <i>“Payroll Unit is behind in Form G-2 audits.”</i></p> <p>Form G-2 lists out the balances for vacation and sick leave credits upon employee separation. One reason cited for the backlog included a lack of resources with effort allocated to the KRONOS system rollout and 9 leave accounting pre-audit clerk vacancies. Another reason cited was, <i>“complex (leave) rules that vary by type and year of union agreements.”</i></p> <p>Accuity LLP’s recommendations included the following:</p> <ul style="list-style-type: none"> • Allocation of adequate resources • Involving the CFO and the Payroll Unit in union negotiations

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	<ul style="list-style-type: none"> • Draft and disseminate timely, memos and procedures to clerks handling leave accounting records when changes in leave benefits occur • Provide updated reference and training manuals to all clerks handling leave accounting records on a regular basis
June 2008	<p>Accuity LLP issued part 4 (of 9) of its Management and Fiscal Assessment of the Office of Human Resources Specific to leave accounting at schools, the assessment identified that –</p> <p><i>“The HIDEOE lacks an effective mechanism for school administrators to monitor teacher, non-instructional personnel, and administrative employee absences.”</i></p> <p>Leave records are maintained by the individual school SASA’s using Form 7. The frequency employee leave records are reviewed is at the discretion of school administrators. It was further noted that school office personnel indicated that employee leave records are not always maintained accurately.</p> <p>Accuity LLP’s recommendation notes that the KRONOS system should resolve the DOE’s need for a monitoring mechanism; however, requests should be submitted to ensure that the desired reporting capabilities will be available.</p>
August 2008	<p>Grant Thornton LLP, issued its report on the Financial Audit of the Department of Education, State of Hawaii for the fiscal year ended, June 30, 2007. In its report the auditor notes that accrued compensated absences as of June 30, 2006 improperly omitted certain employee groups and used erroneous assumptions in determining employee pay rates resulting in the understatement of accrued compensated absences of \$11M. In addition it also identified several errors in the accumulation of leave data.</p> <p>Report recommendation as follows:</p> <p><i>“We recommend that the amounts of vacation and sick leave balances being reported are reviewed and validated against personnel and payroll records to ensure accuracy and completeness before reporting the balances to the State Comptroller.”</i></p>
February 2009	<p>Accuity LLP issued an Executive Summary, summarizing its findings and recommendations from its Management and Fiscal Assessment of the Office of Human Resources. No further findings were noted related to leave accounting.</p>
May 2009	<p>In May of 2009, Grant Thornton issued its report on the Financial Audit of the Department of Education, State of Hawaii, for the fiscal year ended, June 30, 2008. In its report, the auditor notes that similar errors are still being made in the accumulation of leave data identifying errors in 14 of 16 individuals selected for testing. The extrapolation of the dollar value of errors identified, resulted in a projected overstatement of approximately \$6.1M.</p> <p>Report recommendation as follows:</p> <p><i>“We continue to recommend that the amounts of vacation and sick leave balances being reported are reviewed and validated against personnel and payroll records to ensure accuracy and completeness before reporting the balances to the State Comptroller.”</i></p>

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2005-2009	KRONOS implementation with all offices and schools running KRONOS (parallel with current system, ELS) by April 2009.
2008 - 2011	Accuity LLP has been engaged to assist in the system implementation and test the accuracy of payroll data processed by KRONOS. DOE decided not to implement the payroll module in KRONOS.
2010 – current	KMH LLP contracted to update the centralized leave accounting records to the time that the leave balances were transferred into T&A, process the growing backlog of Form G-2s, review existing DOE processing of Form G-2s and make recommendations. KMH LLP was also contracted to prepare a reference manual that explains the various leave types and rules for all employee groups in the DOE.