Department of
Veterans Affairs

Office of Inspector General

MANAGEMENT LETTER: ACCURACY OF DEPARTMENT OF VETERANS AFFAIRS' PAYROLL DATA FOR FISCAL YEAR 1999

Although VA's payroll data is generally accurate, opportunities exist for VA to enhance internal controls over payroll operations.

Report No. 1999-00008-76
Date: June 1, 2000

Office of Inspector General
Washington DC 20420

DEPARTMENT OF VETERANS AFFAIRS
Office of Inspector General
Washington DC 20420

June 1, 2000

Memorandum to the:
Deputy Assistant Secretary for Finance (047)
Chief Financial Officer, Veterans Health Administration (17)
Deputy Assistant Secretary for Human Resources Management (05)

Management Letter: Accuracy of Department of Veterans Affairs' Payroll Data for Fiscal Year 1999
Report No. 1999-00008-76

1. As part of our audit of the Department of Veterans Affairs (VA) Consolidated Financial Statements for Fiscal Year (FY) 1999, we assessed the accuracy of VA's FY 1999 payroll data and evaluated internal controls over payroll operations. Specifically, we tested the accuracy of payroll related general ledger accounts, tested the accuracy of selected payroll payments, traced salaries and payroll deductions to source documents, and evaluated internal controls over payroll operations. Our review was conducted at the Austin Automation Center, Austin Financial Services Center, and 14 medical facilities.

2. The Personnel and Accounting Integrated Data (PAID) System is VA's automated payroll system. During FY 1999, PAID processed an average of about 222,000 biweekly salary payments, and the cost of personal services and benefits totaled about $11.9 billion. The Veterans Health Administration (VHA) accounted for $10.8 billion (90.6 percent) of the $11.9 billion VA payroll.

3. Based on the transactions tested, we concluded that VA's payroll records were generally accurate and reliable. However, we did find that the accrued annual leave amount as of September 30, 1999, was understated by $30 million because of logic errors in the computer application used to calculate the accrued annual leave amount. During our audit, VA financial management made an appropriate adjustment to the FY 1999 financial statements. To preclude future errors in the accrued annual leave amounts, VA financial management needs to ensure that necessary changes are made to the computer application used to calculate the accrued annual leave amount. During the audit, we also noted payroll internal control weaknesses at medical facilities pertaining to: (i) payroll accounting operations, (ii) employee time and attendance

controls, (iii) reviews of payroll reports and records, and (iv) payroll withholdings. Details of our observations are discussed in Appendix II of this report. The problems noted in these areas did not result in any significant deficiencies or errors in payroll financial management information. Nevertheless, we believe that the same types of errors could occur at other VA activities. Therefore, VHA CFO and VA Office of Finance officials need to emphasize these areas to all field stations to ensure that payroll data remains accurate and reliable in the future.

4. Issues concerning accrued annual leave, accrued salaries and wages payable, prior pay period exceptions, comparison of leave requested versus leave used, timekeeper audits, annual timekeeper training, employee account reviews, and record of payroll adjustments and recording transactions are repeat conditions that were reported in the FY 1998 Financial Statement Audit.[1]

5. You are not required to provide an official response to this management letter. However, we would appreciate receiving any written comments you desire to make. We will continue to monitor and follow-up on the issues in this report during future financial statement audits.

6. We are available to provide assistance to your staff on these issues. If you wish to discuss this report or if you need additional information, please contact Mr. Larry Fordham at (202) 565-5042 or me at (202) 565-7013.

For the Assistant Inspector General for Auditing

(Original signed by:)

JOHN E. JONSON
Director, Financial Audits Division

[1] Management Letter – Accuracy of Department of Veterans Affairs' Payroll Data for Fiscal Year 1998 (Report No. 9AF-G10-065), dated March 29, 1999.

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PURPOSE, BACKGROUND, AND SCOPE

PURPOSE

As part of our audit of the Department of Veterans Affairs (VA) Consolidated Financial Statements for Fiscal Year (FY) 1999, we assessed the accuracy of VA's FY 1999 payroll data and evaluated internal controls over payroll operations.

BACKGROUND

The Personnel and Accounting Integrated Data (PAID) System is VA's automated payroll system and serves as the central system for supporting personnel and payroll functions. During FY 1999, PAID processed an average of about 222,000 biweekly salary payments, and the cost of personal services and benefits totaled about $11.9 billion. The Veterans Health Administration (VHA) accounted for $10.8 billion (90.6 percent) of the $11.9 billion VA payroll.

PAID interfaces with the Financial Management System (FMS) which is VA's central financial management system. PAID transmits biweekly payroll transactions, out-of-system payment data, and accrual data to FMS. To update the FMS general ledger, the PAID-FMS interface generates PAID Standard Vouchers, for both current and prior year payroll data.

VA plans to replace the current PAID System with HR LINK$ (formerly called PAYVA). The implementation of HR LINK$ consists of four phases with full system implementation expected by December 2001.

SCOPE

To assess the accuracy and reliability of VA's FY 1999 payroll data, we evaluated internal controls over payroll operations; tested payroll payments and general ledger account balances; discussed payroll policies with appropriate staff at VA Central Office, Austin Automation Center (AAC), and Austin Financial Services Center (FSC); and visited medical facilities. Specifically, we:

- Reviewed the reasonableness of accrued annual leave, payroll expense, and year-end payroll accrual liability balances.

- Tested a national statistical sample of 72 employee salary payments by verifying net pay, gross pay, taxes, deductions, withholdings, and contributions.

- Observed payroll processing at the AAC Payroll/Human Resources Applications Section to evaluate internal controls.

- Evaluated reconciliations of the Treasury Statement of Differences (TFS 6652); Statement of Transactions (SF-224); and the Report of Withholdings and Contributions for Health Benefits, Life Insurance, and Retirement (SF 2812).

- Visited 14 medical facilities to evaluate internal controls for payroll operations because VHA accounted for almost 91 percent of VA's payroll. (See Appendix III for a list of facilities visited.) At the medical facilities, we reviewed procedures concerning: (i) segregation of duties, (ii) timekeeper training, (iii) verification and certification of payroll adjustments, (iv) performance of semi-annual audits of timekeepers, (v) verification of reports, and (vi) submission of health insurance forms to insurance carriers

The audit also included auditing procedures contained in Office of Management and Budget Bulletin 98-08, "Audit Requirements for Federal Financial Statements." The Appendix, Agreed-Upon Procedures: Retirement, Health, and Life Insurance Withholdings/Contributions and Supplemental Headcount Report Submitted to the Office of Personnel Management, prescribes procedures to assist the Office of Personnel Management (OPM) in assessing the reasonableness of retirement, health, and life insurance withholdings/contributions; and employee headcount data submitted by agencies. On December 22, 1999, we issued Report No. 99-000008-25 to OPM that summarized the audit work we accomplished in accordance with the agreed-upon procedures in the Appendix.

The audit was conducted in accordance with generally accepted government auditing standards.

OBSERVATIONS

A. Annual Leave Accrual

We found that the accrued annual leave amount as of September 30, 1999, was understated by $30 million. This occurred because of truncating hours and rates in the programming logic of the computer application that is used to generate Report RCS C-47, "Value of Accrued Annual Leave."

VA uses this report plus the "Value of Accrued Restored Leave" report to determine the amount of accrued annual leave to record on the financial statements. We advised the Deputy Assistant Secretary for Finance of this condition in a September 1998 management letter.[2] In October 1998, the Unit Chief of PAID Central Systems at the AAC informed us that most of the remaining programming problems had not been corrected, but Service Request 98-072 and Amendment 98-072-1 were submitted and they anticipate correction during FY 1999. In May 1999, we were told by the Chief of the AAC HR/Payroll Services Section that they were waiting for the service request with the project specifications. In October 1999, the Unit Chief of PAID Central Systems said they were still waiting on specifications from VACO. We were informed the change was not given a high priority in FY 1999 because of emphasis on Y2K.

We found that the FY 1999 year-end accrued annual leave total of $874 million was understated by $30 million. In November 1999, we advised the Director, Accounting/Payroll Policy Service and an Accountant in the Management and Financial Reports Service Division under the Office of Finance that the accrued annual leave amount was understated. Management and Financial Reports Service Division staff adjusted the annual leave accrual based on our calculations.

To preclude future errors in accrued annual leave amounts, the Office of Finance, in coordination with AAC, should ensure that (i) the programming errors in Report RCS C-47 are corrected, and (ii) appropriate adjustments are made to the accrued annual leave amount until Report RCS C-47 is corrected.

B. Payroll Accounting Operations

Accrued Payroll Liability. Payroll accruals are processed in the general ledger at the end of each accounting month by an interface with PAID and manual journal entries. The entries from the PAID interface are recorded automatically and reversed in the following month. Manual journal entries, called standard vouchers (SV), are used to adjust the accruals generated by PAID and do not automatically reverse. Each SV

[2] Management Letter – Payroll Transactions (Report No. 8AF-G10-140), dated September 10, 1998.

entry related to a payroll accrual must be individually coded to reverse by entering a reversal in FMS. If no reversal date is entered, the accrual will not be reversed until facility staff manually process a correcting entry.

As of September 30, 1999, we found that at some stations manual accruals (SV entries) pertaining to prior months had not been reversed at the beginning of the month following the accrual for the following funds: Medical Care, Minor Construction, Supply Fund, Medical & Prosthetic Research, National Cemetery Administration, General Operating Expenses and Medical Care Cost Recovery. In addition, nine prior year appropriations that were identified in the FY 1998 audit as overstating general ledger account 2210 (Accrued Salaries and Wages Payable) continued to overstate general ledger account 2210. The listing of stations with payroll accruals that had not been reversed was provided to the Accounting, Reconciliation & Reports Section of the Austin Financial Services Center on January 31, 2000.

VHA Chief Financial Officer (CFO) and VA Office of Finance staff should advise facility financial managers to review the payroll accrual accounts, ensure that balances are reversed in a timely manner, and investigate and resolve any unusual account balances.

C. Time and Attendance Controls

Prior Pay Period Exceptions. A prior pay period exception exists when payroll data entered into the Enhanced Time and Attendance System (ETA) does not conform to edit checks in the system. Pay period exceptions alert management of potential time and attendance errors. At the 14 medical facilities visited, we reviewed a total of 140 Time and Leave (T&L) units for 2 pay periods to determine if prior pay period exceptions were still outstanding. At the 14 facilities, prior pay period exceptions were still outstanding for 60 of 140 T&Ls reviewed. Most exceptions occurred when timekeepers posted leave correctly but employees failed to submit leave requests. Unresolved exceptions also included compensatory time posted that exceeded approval; overtime requested, but pending supervisor approval; overtime requested, but pending Director’s approval; leave requested, but not used; overtime not requested; overtime posted which exceeded approved overtime hours; and leave requested, but not approved.

The VHA CFO and VA Office of Finance should emphasize to timekeepers, approving officials, and certifying officials the importance of promptly reviewing and resolving prior pay period exceptions. It is important that prior pay period exceptions be promptly reviewed and resolved because these exceptions indicate time and attendance data problems.

Comparison of Leave Requested Versus Leave Used. At the 14 medical facilities reviewed, we compared leave requested to leave recorded in the Enhanced Time and Attendance System for 140 employees for a 2-month period to determine if employees were correctly charged leave. We found 48 instances where leave requested did not agree with leave charged. Most differences were attributed to employees using paper SF 71s rather than the ETA system. However, at one facility four employees' leave records had to be corrected during our audit. At another facility, the timekeeper failed to post an employee's request for 8 hours sick leave and corrected it during our audit. At three other facilities, there were a total of seven employees whose leave records were incorrect. Timekeepers and certifying officials should be reminded of the importance of verifying the accuracy of timecards.

To improve the accuracy of recording leave, VHA CFO and VA Office of Finance staff should emphasize to timekeepers and certifying officials the need to compare leave charged to leave requested when posting and certifying timecards. Payroll supervisors should also review leave charged and leave requested during timekeeper audits.

Unit Timekeeper Audits. VA Manual MP-6, Part V, Supplement No. 2.2, Change 6, Chapter 1, Section 102.01b3 states that the Employee Accounts Section should perform desk audits of timekeepers at least semiannually. Unit timekeeper audits were not performed during Fiscal Year 1999 at 6 of the 14 medical facilities reviewed. Facility staff cited staffing shortages as the reason.

The VHA CFO and VA Office of Finance should emphasize to facilities the importance of performing timekeeper audits semiannually. Timekeeper audits are essential to ensure that timekeepers adhere to time and attendance policies.

Annual Timekeeper Training. VA Manual MP-6, Part V, Supplement No. 2.2, Change 6, Chapter 1, Section 102.01b2 states that the Employee Accounts Section at each facility should conduct annual refresher training for all unit timekeepers. This training provides an opportunity to disseminate and explain new instructions and procedures as well as old issues related to time and leave matters to unit timekeepers. Out of 1,451 timekeepers, 1,019 or 70 percent had not received annual refresher training. Reasons given for not performing the requirement were: new information disseminated via e-mail, time not set aside to conduct training, and no training in the last 2 years due to changes in organization and personnel.

The VHA CFO and VA Office of Finance should remind facilities of the importance of annual refresher timekeeper training. Where training is provided via email, old issues as well as new instructions should be provided to timekeepers.

D. Reviews of Payroll Reports and Records

Social Security Number (SSN). The PAID System uses SSNs as a unique employee identifier within its records, files and reports. Therefore, accuracy and reliability of employee SSNs are necessary. MP-6, Part V, Supplement No. 1.5, Chapter 6, provides that temporary or dummy numbers may be used when:

- An employee holds two concurrent part-time and/or intermittent appointments at the same station. The first master record created uses the employee's actual SSN in the SSN field, but the second record is created using a temporary or dummy SSN in the SSN field.

- An employee does not have an SSN or the number is not available. PAID TWX 052C-tx-93-10 dated 2/10/93 requires replacement of a temporary SSN or dummy SSN with a valid SSN within 90 days of employment.

We checked the validity of SSNs at the 14 sites visited by comparing the SSNs to a list of numbers issued by the Social Security Administration. The analysis indicated 108 potential invalid SSNs at the 14 sites.

Our review found eight invalid SSNs that were not replaced within 90 days. The three responsible facilities corrected the SSNs based on our audit. We also found three instances where Human Resources Management staff failed to delete the second appointment when the employees separated from their dual appointments. Human Resources Management staff also failed to update an employee's SSN when the employee separated from his first appointment but retained the second appointment.

It is important that facility personnel review and investigate all invalid SSNs (including temporary or dummy SSNs) in the payroll system. Invalid SSNs could result in erroneous reporting of salary and withholding information, or could indicate potential fraudulent activity.

The VHA CFO and VA Office of Finance should emphasize to facility staff the importance of reviewing the quarterly Invalid SSN report, and initiating appropriate corrective action. Human Resources Management also needs to remind staff to delete both appointments when employees separate from both appointments, and to replace the temporary or dummy SSN when an employee separates from the first appointment but retains the second appointment.

Record of Payroll Adjustments and Recording Transactions. VA Manual MP-6, Part V, Supplement No. 2.3, Chapter 13 requires the payroll staff to initial each transaction and the payroll activity supervisor to certify the "Record of Payroll Adjustments and Recording Transactions for Verification" report after each pay period. It is important that each transaction is verified and the report certified because of the nature of the transactions.

At 14 medical facilities, we reviewed 2,672 payroll adjustments made during 2 pay periods. At 2 of the 14 facilities, payroll technicians did not make any reviews of 644 payroll adjustments. In addition, at three facilities, payroll supervisors did not certify the reports. Two of these facilities did not have a payroll supervisor, but at one of these facilities the operating accountant certified the listings. At the other facility, the payroll supervisor attributed failure to staffing shortages.

The VHA CFO and VA Office of Finance should emphasize to facility payroll staff the importance of verifying and certifying the "Record of Payroll Adjustments and Recording Transactions for Verification" report.

Employee Account Reviews. VHA Handbook 1730.2, VHA Fiscal Quality Assurance System, provides procedures for medical facilities to use in performing self-assessment reviews to evaluate the quality of work performed within fiscal operations. The Handbook states that Employee Account reviews should be performed during the second quarter. These reviews should include reviewing timekeeper training and documentation of unit timekeeper audits, and auditing payroll folders. Staff at 7 of 14 facilities reviewed did not perform Employee Account reviews during the second quarter. Reasons given for not performing the reviews included auditor was on sick leave, new fiscal officer, and employee accounts are audited upon separation of employee.

The VHA CFO and VA Office of Finance should emphasize to facility financial staff the importance of performing required Employee Account reviews to identify quality control problems relating to payroll operations.

E. Payroll Withholdings

We tested a national statistical sample of 72 salary payments. For these payments, we verified employees' gross pay, net pay, health and life insurance withholdings/contributions, federal, state and city tax withholdings, savings bonds, Combined Federal Campaign, and other deductions. Our review of the 72 payments disclosed 3 errors affecting payroll expense and one internal control error. This is in contrast to the FY 1998 audit where only minor errors were found. Details of the three errors are discussed below.

Payroll Expense Errors. A Federal Employees Retirement System (FERS) employee elected to have 5 percent withheld from his pay for the Thrift Savings Plan (TSP). Form TSP-1, Thrift Savings Plan Election Form, shows the effective date as January 3, 1999. Our analysis indicates the 5 percent deduction for $95.16 was not being withheld and the 4 percent government matching of $76.13 was not being contributed. However, the employee was receiving the 1 percent government basic of $18.52. The amount understating payroll expense was $76.13 per pay period, which is the 4 percent government matching that was not contributed.

Another FERS employee's TSP status was changed from eligible to ineligible in pay period 4 of FY 1999. Station personnel could not determine why this occurred. Form TSP-1 indicates the employee elected to have 10 percent of his salary withheld for TSP. The effective date of this election was July 6, 1997. The 10 percent that should have been withheld was $141.88, and the amount that the government should have contributed was $70.95. The amount of understatement of payroll expense was $70.95, which is the one percent ($14.19) government basic and four percent ($56.76) government matching.

A third error overstated payroll expense by $8.27 per pay period. An employee's uniform allowance should have been discontinued on February 28, 1999, but staff failed to stop the allowance. According to the Financial Manager, a bill of collection was issued.

The three errors affecting payroll expense occurred in FY 1999. The estimated total value of payroll errors is $12,408,656. Employees should be reminded regularly to check their earnings and leave statements for accuracy. Errors should be brought to the attention of management. TSP errors are significant especially for FERS employees. For FERS employees, TSP is one of the three parts of the retirement package, along with FERS Basic Annuity and Social Security.

Internal Control Error. A $.90 deduction for Option A Life Insurance was being withheld from an employee's pay in error. The SF 2817, Life Insurance Election, shows the employee only elected Basic and Option C Life Insurance. This error has existed since 1986. The Supervisory Staffing Specialist in Human Resources agreed that the error had occurred, and it would be corrected.

FACILITIES VISITED

Austin Financial Services Center (104)
Austin Automation Center (200)
VAMROC Wichita, KS (452)
VA New Mexico Health Care System (501)
VAMC Ann Arbor, MI (506)
VAMC Cincinnati, OH (539)
VAMC Durham, NC (558)
VA Central Alabama Health Care System (619)
VAMC Portland, OR (648)
VA Salt Lake City Health Care System (660)
VAMC Syracuse, NY (670)
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