



Internal Audit Report

Non-Regular Wages

Report Number: 2017-05 | Report Date: August 4, 2017

Executive Summary

Audit Report No.: 2017-05

August 4, 2017

WE AUDITED the agency management controls over non-regular wages.

AUDIT OBJECTIVE was to determine whether the agency has effective controls to ensure that non-regular earnings are properly and equitably approved, calculated and executed.

The audit examined management controls in place as of March 2017.

WHAT DID WE FIND?

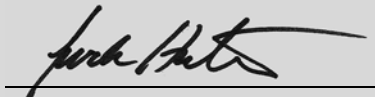
Regular wages and regular leaves account for approximately 91% of the agency's total payroll. The remaining 9% of payroll include earnings types that require additional management approval and oversight. Agency policies and procedures define specific qualifying circumstances for the majority of non-regular wages.

Year	Regular Wages	Regular Leaves	Non-Regular Wages	Total Payroll
2014	\$45,056,353	\$6,598,940	\$4,789,051	\$56,444,344
2015	\$49,836,708	\$7,009,404	\$5,449,449	\$62,295,561
2016	\$53,633,735	\$7,453,326	\$6,135,938	\$67,222,999

Non-regular earnings types include, but are not limited to:

- Contribution and Performance Awards
- Training
- Vacation Buy Out
- Vacation and Sick Pay Out
- FMLA
- Overtime
- Salary Overrides
- Retroactive Pay
- Bereavement Leave
- Jury Duty

The audit concluded that management has implemented effective controls to reasonably ensure that non-regular earnings are properly and equitably approved, calculated and executed.



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Background

For audit purpose, we defined Regular Wages as salaries and wages paid to employees for time worked and vacation, holiday and sick, which are accrued leave types available for use by all employees. These regular wages account for approximately 91% of the agency's total payroll. The remaining 9%, which are referred to as Non-Regular Wages in the report, include earnings types that require additional management approval and oversight.

Regular and non-regular wage distributions for the last three calendar years are as follows:

Year	Employee Count	Regular Wages	Regular Leaves	Non-Regular Wages	Total Payroll
2014	732	\$45,056,353	\$6,598,940	\$4,789,051	\$56,444,344
2015	748	\$49,836,708	\$7,009,404	\$5,449,449	\$62,295,561
2016	783	\$53,633,735	\$7,453,326	\$6,135,938	\$67,222,999

Source: Agency payroll data.

The majority of non-regular wages require qualifying circumstances and need to follow procedures as prescribed in agency policies and procedures. Non-Regular earnings include, but are not limited to the following types:

- Contribution and Performance Awards – Additional compensation related to the achievement of individual and agency goals and objectives.
- Training – Training is required and encouraged for all agency staff, at least 32 hours for managers and 16 hours for all others.
- Vacation Buy Out – A provision that allows current employees to cash out a certain portion of their existing vacation leave when certain requirements are met.
- Vacation and Sick Pay Out – When an employee leaves ST or passes away while employed by ST, they are compensated for 100% of their remaining vacation leave and a percentage of their remaining sick leave.
- FMLA Leave – Leave policy based on the Family and Medical Leave Act.
- Overtime – Time and half is paid for any hours in excess of 40 hours per work week authorized in advance by the non-exempt employee's supervisor.
- Salary Overrides – Payouts to terminated employees, either based on a termination agreement or a legal agreement.
- Retroactive Pay – This is back pay based on a salary change that did not occur timely
- Bereavement Leave – Employees are eligible for up to three days off with pay in the event of a death in their immediate family.
- Jury Duty – Employees shall be paid their regular pay rate while on jury duty or under subpoena on behalf of the state or any political subdivision thereof.

Audit Objectives

To determine whether the agency has effective controls to ensure that non-regular earnings are properly and equitably approved, calculated and executed.

Scope and Methodology

We conducted this performance audit in accordance with Generally Accepted Government Auditing Standards and the International Standards for the Professional Practice of Internal Auditing. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide 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.

We gained an understanding of policy requirements, as well as management practices, of non-regular wages through interviews of Human Resource and Payroll staff, and reviews of payroll transactions. We identified risks, including areas of greater management discretion, and assessed management controls in place to mitigate those risks. Based on the assessment of risks and controls, we determined to focus our efforts on management controls over Performance Awards, Retro Pay, Sick and Vacation Payouts, Estate Pay, Overtime, Stand By, Bereavement, Award Time and Salary Adjustments, as of March 2017.

To determine whether the agency has effective controls to ensure that non-regular earnings are properly and equitably approved, calculated and executed, we conducted the following procedures:

1. A representative sample of the following non-regular earnings types was selected. Where feasible, the selection was dispersed among the divisions to test a wide array of division practices across the agency.
 - The Performance Awards sample consisted of 22 individuals who had consistently received (3+ plus years) Excellent and Outstanding ratings.
 - The Overtime sample consisted of the top 10 overtime earners and 5 individuals that occasionally earn overtime. Selected employees were reviewed for a period of one year.
 - The Award Time sample consisted of everyone with 16 or more hours of award time used in 2016-2017.
 - All Bereavement time used since 2014 were selected.
 - All Stand By time transactions in 2016 were selected.
 - A judgmental sample of 10 Retro Pay, Sick Payouts, Vacation Payouts and Estate Pay transactions was selected.
 - Salary Adjustments resulting from the 2014 and 2015 annual compensation surveys were selected, as well as all other salary adjustments occurring outside of the performance evaluation periods and compensation survey.
2. The samples were tested for the following attributes:
 - Was the transaction properly approved?
 - If applicable, were all qualifying circumstances or requirements met?
 - If applicable, was the amount accurately calculated?
 - If applicable, was the wage type equitably applied?

Conclusion

Management has implemented effective controls to reasonably ensure that non-regular earnings are properly and equitably approved, calculated and executed.