



Office of Inspector General

MANAGEMENT LETTER: ACCURACY OF DEPARTMENT OF VETERANS AFFAIRS' PAYROLL DATA FOR FISCAL YEAR 1998

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

Report No. 9AF-G10-065
Date: March 29, 1999

Office of Inspector General
Washington DC 20420



DEPARTMENT OF VETERANS AFFAIRS
Office of Inspector General
Washington DC 20420

March 29, 1999

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 1998
Report No. 9AF-G10-065

1. As part of our audit of the Department of Veterans Affairs (VA) Consolidated Financial Statements for Fiscal Year (FY) 1998, we assessed the accuracy of VA's FY 1998 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 16 medical facilities.
2. The Personnel and Accounting Integrated Data (PAID) System is VA's automated payroll system. During FY 1998, PAID processed an average of more than 224,000 biweekly salary payments, and the cost of personal services and benefits totaled about \$11.6 billion. The Veterans Health Administration (VHA) accounted for \$10.3 billion (89.2 percent) of the \$11.6 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, 1998, was understated by \$23.3 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 1998 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 ensure that payroll data remains accurate and reliable in the future.

4. 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.

5. 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. Jack Shigetomi at (310) 268-4336 or me at (202) 565-7013.

For the Assistant Inspector General for Auditing

(Original signed by:)

John E. Jonson
Director, Financial Statement Audit
Operations Division (52CF)

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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) 1998, we assessed the accuracy of VA's FY 1998 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 1998, PAID processed an average of more than 224,000 biweekly salary payments, and the cost of personal services and benefits totaled about \$11.6 billion. The Veterans Health Administration (VHA) accounted for \$10.3 billion (89.2 percent) of the \$11.6 billion VA payroll.

PAID interfaces with the Financial Management System (FMS) which is VA's central financial management system. PAID passes biweekly payroll transactions, out-of-system payment data, and accrual data to FMS. In turn, FMS passes data for taxable Permanent Change of Station travel reimbursements to PAID. To update the FMS general ledger, the incoming PAID-FMS interface generates Payroll 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 2000.

SCOPE

To assess the accuracy and reliability of VA's FY 1998 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; Reconciliation Report (SF 224); and the Report of Withholdings and Contributions for Health Benefits, Life Insurance, and Retirement (SF 2812).
- Visited 16 medical facilities to evaluate internal controls for payroll operations because VHA accounted for almost 90 percent of VA's payroll. The 16 facilities visited provided financial management support, including payroll, to 11 additional medical facilities. (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.

Our audit also included auditing procedures contained in Appendix H of Office of Management and Budget Bulletin 98-08, "Audit Requirements for Federal Financial Statements." Appendix H (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 16, 1998, we issued a report (9AF-G10-016) to OPM that summarized the audit work we accomplished in accordance with the agreed-upon procedures in Appendix H.

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, 1998, was understated by \$23.3 million. This occurred because of the following programming logic errors in the computer application used to generate Report RCS C-47, "Value of Accrued Annual Leave:"

- Restored Annual Leave Not Included
- Wrong Pay Period Used
- Truncating Hours and Rates

VA uses this 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.¹ 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.

We found that the FY 1998 year-end accrued annual leave total of \$862.6 million on Report RCS C-47 was understated by \$23.3 million. In December 1998, we advised the Director, Management and Financial Reports Service Division under the Office of Finance that the accrued annual leave amount on the preliminary FY 1998 financial statements 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 (i) ensure that 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

¹ Management Letter – Payroll Transactions (Report No. 8AF-G10-140), dated September 10, 1998.

adjust the accruals generated by PAID and do not automatically reverse. Each SV 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 processes a correcting entry.

As of September 30, 1998, general ledger account 2210 (Accrued Salaries and Wages Payable) totaled approximately \$576 million, which included amounts for both current and prior years. Current appropriations were overstated by \$145,441 (absolute total of \$254,559) because accruals that were manually entered (SV entries) were not reversed. The overstatement affected the appropriations for Medical Care, Minor Construction, and Medical Care Collection Fund. In addition, prior year appropriations were overstated by \$39,607 (absolute total of \$498,065). These accruals should have been reversed at the beginning of the accounting period.

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.

Reconciliation of PAID to FMS. We reviewed procedures for reconciling the payroll data file to the general ledger accounts in FMS. We found that the Agency Payroll Office at the FSC did not perform these reconciliations. Agency Payroll Office staff stated that they are unaware of any specific requirement for them to reconcile the payroll data to the general ledger. However, VA Directive 4520 states that all subsidiary accounts and records should be reconciled to the general ledger monthly.

For three pay periods, we reconciled the totals on the payroll data file to general ledger account 6122 (Operating Expense - Personal Services). We used the totals from the following payroll data file fields: gross earnings; uniform allowance; living allowance; and the government’s share of retirement, Social Security, Medicare, Thrift Savings Plan, health insurance, and life insurance. From the general ledger account, we extracted all payroll voucher transactions that pertained to the three pay periods selected for review. For all three pay periods, the unsubstantiated differences between the payroll data and the general ledger account were about .01 percent, as shown below.

Pay Period	General Ledger (6122)	Payroll Data File	Gross Variance	Gross Variance Percentage
98-05	\$429,769,178	\$429,713,858	\$55,320	0.01%
98-14	\$436,853,478	\$436,813,019	\$40,459	0.01%
98-17	\$437,928,657	\$437,889,095	\$39,562	0.01%

At five medical facilities, we inquired whether facility staff reconciled the payroll data file to the general ledger accounts. We found that staff at only one of the five facilities had performed a reconciliation between PAID and FMS. Staff at the remaining four facilities did not perform any type of reconciliation.

The Chief of the Financial Reports Section at the FSC stated that, during training sessions, facility personnel were told to reconcile payroll data by comparing the PAID Gross-to-Net to the FMS report, "Daily Activity by Account Classification Code" for each pay period. Reconciliation of payroll data files to general ledger accounts is important to ensure that the payroll expense on the financial statements is accurate. For FY 1998, payroll expenses totaled about \$11.6 billion.

We suggest that the VHA CFO and VA Office of Finance staff advise facilities to reconcile payroll data files to the general ledger accounts monthly.

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 does not conform to edit checks in the system. Pay period exceptions alert management of potential time and attendance errors. At the 16 medical facilities visited, we reviewed a total of 160 Time and Leave (T&L) units for 2 pay periods to determine if prior pay period exceptions were still outstanding. At 14 of 16 facilities, prior pay period exceptions were still outstanding for 54 of 160 T&Ls reviewed. Reasons cited for unresolved exceptions were other higher priority workload and supervisors not monitoring exceptions. It is important that prior pay period exceptions be promptly reviewed and resolved because these exceptions indicate time and attendance data problems. Unresolved exceptions included leave requested, but not used; overtime not requested; overtime posted which exceeded approved overtime hours; and leave requested, but not approved. We suggest that the VHA CFO and VA Office of Finance emphasize to facility staff the importance of promptly reviewing and resolving prior pay period exceptions.

Comparison of Leave Requested versus Leave Used. At the 16 medical facilities reviewed, we compared leave requested to leave recorded in the Enhanced Time and Attendance System for 170 employees for a 2-month period to determine if employees were correctly charged leave. We found 60 instances where leave requested did not agree with leave charged. Fifty-two of the 60 differences were attributed to the following reasons: annual, sick, and family leave not requested; authorized absence not requested; and error in input of the leave request. Employee leave should be requested and approved prior to taking leave, and after the fact in emergencies. In the eight remaining instances, five employees had taken leave, but were not charged for the leave; and three other employees were charged ½ to 1 hour too much leave because timekeepers incorrectly charged them for their lunch period. 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 facility staff the need to compare leave charged to 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 1998 at 10 of the 16 medical facilities reviewed. Reasons given for not performing timekeeper audits were insufficient resources due to understaffing and retirements. Timekeeper audits are essential to ensure that timekeepers adhere to time and attendance policies. The VHA CFO and VA Office of Finance should emphasize to facilities to perform timekeeper audits semiannually.

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 relating to time and leave matters to unit timekeepers. Timekeepers had not received annual refresher training at 11 of 16 facilities we visited. Of the remaining five facilities, one facility trained timekeepers on an as needed basis, and another facility did not document the training. The VHA CFO and VA Office of Finance should remind facilities to provide annual timekeeper training.

D. Reviews of Payroll Reports and Records

Invalid Social Security Number (SSN). The AAC prepares the quarterly Invalid SSN report, which can be reviewed by facility Human Resources Management staff on RSD (Roger Software Development). This report lists invalid SSNs that are in the VA payroll system.

We found that staff at only 2 of the 16 medical facilities reviewed the quarterly reports of invalid SSNs. Staff at the remaining 14 facilities were unaware of the report. The quarterly report for September 26, 1998 listed 195 invalid SSNs. It is important that facility personnel review and investigate all invalid 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.

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 16 medical facilities, we reviewed 4,148 payroll adjustments made during 2 pay periods. At 3 of the 16 facilities, payroll technicians did not make any reviews of 381 payroll adjustments. In addition, at 2 other facilities, payroll supervisors did not certify the reports. One of these facilities did not have a payroll supervisor. At the other facility, the payroll supervisor had the reports on her desk, but had not certified them. We believe that 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.

Listing of Accessions and Separations for Verifications. VA Manual MP-6, Part V, Supplement No. 2.3, Chapter 13 requires the “Listing of Accessions and Separations for Verification” report be verified by both the personnel and fiscal activities. At 1 of the 16 facilities reviewed, neither activity verified the report. At 2 other facilities, either Human Resources or payroll did not verify the report. It is important that the report be verified in order to find errors. Staff at one facility did find errors during their verification of the report. Specifically, they found that the effective dates of accession for two employees were each off by a day, and health benefit codes were missing. The VHA CFO and VA Office of Finance should advise facility staff to verify the “Listing of Accessions and Separations for Verifications” 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 being 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 12 of 16 facilities reviewed did not perform Employee Account reviews during the second quarter. Reasons given for not performing the reviews included personnel shortage, low priority, and not being aware of the review requirement. It is important that Employee Account reviews are performed to identify quality control problems relating to payroll operations. The VHA CFO and VA Office of Finance should emphasize to facility financial staff to perform required Employee Account reviews.

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 did not disclose any significant errors or deficiencies. However, we did identify several minor errors pertaining to the accuracy of local tax withholdings and maintaining documentation to support payroll withholdings. Details of these errors are discussed below.

- One employee's county tax was under withheld because the county was incorrectly coded in the employee's master record. The VHA CFO and VA Office of Finance staff emphasize to facility financial staff to ensure that correct data is recorded for determining county tax withholdings.
- Another employee's city tax was under withheld because AAC had not updated New York City tax rates for several years. We suggest that the Office of Finance update the New York City tax-withholding table in PAID.
- We could not verify the accuracy of withholding deductions for four employees because documentation was unavailable for state taxes, Combined Federal Campaign, savings allotment, and savings bonds. The VHA CFO and VA Office of Finance should emphasize to facility financial staff the importance of ensuring that documentation is maintained to support all payroll withholdings.

FACILITIES VISITED

VAMC Atlanta, GA (508)
VA Maryland Health Care System (512/566/641)
VAMC Boston, MA (523/750)
VA Western New York Health Care System (528/513)
VA Chicago Health Care System (535/537)
VA North Texas Health Care System (549/522)
VA Greater Nebraska Health Care System (597/574)
VAMC Long Beach, CA (600)
VAMC Loma Linda, CA (605)
VA Northern Indiana Health Care System (610/569)
VAMC Memphis, TN (614)
VA Pittsburgh Health Care System (646/645)
VAMC San Francisco, CA (662)
VA Puget Sound Health Care System (663/505)
VAMC San Diego, CA (664)
VA South Texas Veterans Health Care System (671/591)

FINAL REPORT DISTRIBUTION

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