

DOCUMENT RESUME

03460 - [A2693867]

Need to Apply Adequate Control over the Centralized Payroll System. FGHSD-77-21; B-164031. September 22, 1977. 2 pp. + appendix (17 pp.).

Report to Secretary, Department of Health, Education, and Welfare; by D. E. Scarborough, Director, Financial and General Management Studies Div.

Issue Area: Accounting and Financial Reporting (2800).

Contact: Financial and General Management Studies Div.

Budget Function: Miscellaneous: Financial Management and Information Systems (1002).

Congressional Relevance: House Committee on Education and Labor; Senate Committee on Labor and Public Welfare.

In 1976 the Department of Health, Education, and Welfare (HEW) paid over \$2.2 billion to about 150,000 employees through a centralized, automated payroll system. Weaknesses in the system that might prevent timely and accurate payments to employees include inaccuracies in time and attendance reporting, uncontrolled payments to experts and consultants, and illegible or missing payroll records. Findings/Conclusions: Previous GAO reports have recommended that a series of actions be taken to: (1) correct a high rate of errors in time and attendance reports; (2) improve supplemental pay processing to prevent erroneous payments, pay and leave records, and withholding statements from being generated; (3) provide controls over pay adjustments to keep previous pay errors from being compounded during the adjustment process and to reduce the potential for fraudulent or unauthorized payments through the adjustment process; (4) eliminate practices that allow excessive and fraudulent payments to experts and consultants; (5) control temporary pay records to prevent overpayments and inaccurate withholding statements; and (6) provide better microfilm copies of pay records that are being retained for payroll research and audit. Recommendations: The Secretary of Health, Education, and Welfare should have the Assistant Secretary for Personnel Administration take the necessary actions to insure that the GAO recommendations previously made are fully implemented.
(Author/SC)

3867

03460



UNITED STATES GENERAL ACCOUNTING OFFICE

Need To Apply Adequate Control Over The Centralized Payroll System

Department of Health,
Education, and Welfare

In 1976 HEW paid over \$2.2 billion to about 150,000 employees through a centralized, automated payroll system.

This report discusses many weaknesses in the system that may prevent timely and accurate payments to employees. Included are

- inaccuracies in time and attendance reporting,
- uncontrolled payments to experts and consultants, and
- illegible or missing payroll records.

GAO is recommending a series of actions to correct these weaknesses.

Several of the weaknesses have been previously reported by GAO, HEW's Audit Agency, and others. HEW has not taken adequate corrective action, however. GAO is therefore recommending that the Assistant Secretary for Personnel Administration monitor the implementation of the recommendations contained in this report.



UNITED STATES GENERAL ACCOUNTING OFFICE
WASHINGTON, D.C. 20548

DIVISION OF FINANCIAL AND
GENERAL MANAGEMENT STUDIES

B-164031

The Honorable
The Secretary of Health,
Education, and Welfare

Dear Mr. Secretary:

This report is the fourth in a series on the centralized payroll system of the Department of Health, Education, and Welfare (HEW). It discusses system improvements needed to insure that wages and salaries are paid accurately and promptly to about 150,000 employees. About \$2.2 billion was paid to these employees in calendar year 1976.

Our review was made at your Department's Division of Central Payroll in Washington, D.C., and was undertaken pursuant to the Budget and Accounting Procedures Act of 1950. Section 112(b) of the act provides for approval of executive agency accounting systems by the Comptroller General. HEW's statement of principles and standards for its accounting systems was approved in April 1970, and it plans to submit the centralized payroll system design for approval in June 1979.

We evaluated HEW's actions on recommendations in audit reports issued since 1969 on the centralized payroll operation. The recommendations were made in reports by HEW's Audit Agency, a special interagency payroll review panel convened by HEW, and us.

The appendix to this report contains details of our findings, conclusions, and recommendations. Briefly, it recommends a series of actions that should be taken to:

- Correct a high rate of errors in time and attendance reports.
- Improve supplemental pay processing to prevent erroneous payments, pay and leave records, and withholding statements from being generated.
- Provide controls over pay adjustments to keep previous pay errors from being compounded during the adjustment process and to reduce the

potential for fraudulent or unauthorized payments through the adjustment process.

- Eliminate practices that allow excessive and fraudulent payments to experts and consultants.
- Control temporary pay records to prevent overpayments and inaccurate withholding statements.
- Provide better microfilm copies of pay records that are being retained for payroll research and audit.

Some of our recommendations relate to system deficiencies that have previously been reported by HEW's internal auditors or by us, but have not been corrected. Because of this, we recommend that you have the Assistant Secretary for Personnel Administration take the necessary actions to insure that our recommendations are fully implemented.

We discussed our findings and recommendations with payroll officials, including the Director of the Division of Central Payroll. The officials generally agreed with our findings and recommendations.

As you know, section 236 of the Legislative Reorganization Act of 1970 requires the head of a Federal agency to submit a written statement on actions taken on our recommendations to the House Committee on Government Operations and the Senate Committee on Governmental Affairs not later than 60 days after the date of the report and to the House and Senate Committees on Appropriations with the agency's first request for appropriations made more than 60 days after the date of this report.

We are sending copies of this report to the Director of the Division of Central Payroll and the Assistant Inspector General for Audit. We are also sending a copy to Congressman Mario Biaggi, by agreement, because of his interest in HEW's payroll system.

We appreciate the courtesy and cooperation extended to our representatives during our audit. We would appreciate your comments and advice on any actions taken or planned on matters discussed in this report.

Sincerely yours,


D. L. Scantlebury
Director

SUMMARY OF FINDINGS AND RECOMMENDATIONS TOIMPROVE SYSTEM CONTROLS OVER PAYROLL OPERATIONS

The centralized automated payroll system of the Department of Health, Education, and Welfare (HEW) paid approximately \$2.2 billion to about 150,000 employees in calendar year 1976. We evaluated the procedures and records controlling these payments and identified many opportunities for improving the payroll system. These improvements would help insure that only accurate and prompt payments are made to employees.

POSITIVE ACTION NEEDED TO IMPROVE CONTROLS OVER TIME AND ATTENDANCE REPORTS

Previous reports by HEW's internal auditors and us discussed a high error rate in time and attendance reports used as a basis for issuing biweekly paychecks to HEW employees and said that this condition could lead to errors in employees' pay and accrued leave. At the time of our review the potential for pay errors still existed because management had not corrected continuing weaknesses in timekeeping practices.

We first reported on errors in time and attendance reports used by HEW's payroll system in January 1969. In that report, 1/ we:

- Discussed many clerical type errors (such as mistakes in arithmetic and carrying totals forward) in recording annual and sick leave balances and estimated that leave balances were overstated and understated by about \$3 million as a result of the errors.
- Commented that the errors went undetected because many time and attendance reports forwarded to central payroll were not reviewed by the timekeepers' supervisors.

Responding to our findings in 1969, HEW said that a new system was being designed using computers to maintain leave balances. HEW also said the new system should eliminate any errors in leave balances and that action would be taken to insure more effective supervision in time and attendance reporting.

1/"Need for Improvements in the Automated Central Payroll System of the Department of Health, Education, and Welfare" (B-164031), Jan. 17, 1969.

In December 1970 HEW's internal auditors reported that timekeepers and their supervisors were still not adequately reviewing time and attendance reports. The internal auditors estimated a Department-wide error rate of over 10 percent, including missing certifications by timekeepers and supervisors, and attributed this error rate primarily to inadequate review by timekeepers and supervisors. The internal auditors also told HEW's management of the importance of adequate reviews, noting other control features, such as reviews by payroll clerks and employee complaints, were not detecting errors.

In responding to that report, central payroll officials again acknowledged the need for action to improve the quality of time and attendance reports. A 1971 internal audit report, however, noted that the time and attendance reports still contained errors necessitating the issuance of supplemental paychecks.

We considered whether HEW's procedures for time and attendance reporting now conform to standards specified in our Policies and Procedures Manual for Guidance of Federal Agencies (6 GAO 7). These standards emphasize the need for adequate supervision and reviews over time and attendance reporting to prevent unauthorized, fraudulent, or otherwise irregular acts.

Under HEW's procedures, a report is to be submitted for each employee listing the nature and length of absences. The timekeepers are responsible for correctly filling out time reports, and their supervisors are required to certify the validity of the reported information. Employees should certify accuracy of time reported for them as leave taken, if any.

We selected a sample of 900 time and attendance reports and found that 79, or about 8.8 percent, were not prepared in accordance with HEW's procedures. Of these 79,

- 39 reports (about 4.4 percent) were not certified by the employees' supervisors;
- 19 reports (about 2.1 percent) did not contain required certifications by the employees for whom they were submitted; and
- 21 reports (about 2.3 percent) either were prepared in apparent disregard of payroll regulations or contained clerical errors, lack of specifics on authorizations for reported overtime hours, or insufficient information to accurately compute pay.

The reports we reviewed had already passed through controls programed into the computer to help insure that only accurate, reliable, and complete data was used in computing employee pay. The 8.8 percent error rate showed that little progress had been made to improve the accuracy of time and attendance reports since 1970 when the error rate was about 10 percent.

Central payroll officials acknowledged that the error rate was too high and attributed it primarily to a high turnover rate for timekeepers. They said timekeeping was not a desirable job--75 percent of HEW's approximately 6,000 timekeepers were replaced every 6 months. They also said the job was normally assigned to the newest clerical member of an office who generally attended no formal training programs. Thus, the timekeepers' knowledge of HEW's procedures was generally limited to information passed on to them by other timekeepers. These officials believed that formal training courses were futile because of the high turnover rate of timekeepers.

Central payroll officials acknowledged that the lack of training resulted in a significant amount of erroneous and unnecessary paperwork. For example, they said their review of 470 corrected time and attendance reports submitted by timekeepers showed that many of the reports had to be corrected because they had not been prepared according to established HEW procedures.

Conclusions and recommendations

Our Policy and Procedures Manual for Guidance of Federal Agencies (6 GAO 7) provides that the preparation of time and attendance reports must be properly supervised and reviewed to prevent unauthorized, fraudulent, or otherwise irregular acts. HEW's procedures require that the reports be prepared under adequate supervision and review. The procedures also require certifications indicating that the supervisory and review tasks have been adequately performed. These procedures, however, are not being followed.

Because the high error rate in time and attendance reports has been a longstanding problem at HEW, positive action is long overdue to correct the condition. We therefore recommend that the HEW Secretary require the Director of the Division of Central Payroll to:

- Issue instructions to HEW's timekeepers and their supervisors emphasizing that prescribed

procedures must be followed in preparing time and attendance reports.

- Develop a mandatory training program for timekeepers that explains procedures in Federal regulations and in HEW's manual for accurate recording and reporting of employees' hours of work and leave.
- Issue directives requiring that only properly trained employees are assigned as timekeepers.
- Develop a monitoring program to insure that the procedures are followed and to identify timekeepers and supervisors who habitually deviate from the procedures.

IMPROVEMENTS NEEDED IN SUPPLEMENTAL PAYROLL PROCESSING

Central payroll manually processes a substantial number of supplemental paychecks for HEW employees. We estimate that HEW issued about 5,000 supplemental paychecks in calendar year 1976, valued at about \$2.9 million.

Because central payroll's procedures do not insure that employees are accurately and promptly paid and leave balances and earnings are properly recorded, many supplemental checks must be issued. Because the preparation and processing of supplemental checks were not adequately controlled, undetected clerical errors

- provided the opportunity for erroneous payments,
- resulted in erroneous amounts of leave being recorded,
- allowed payments near yearend to be recorded inaccurately in pay records, and
- permitted incorrect employee withholding statements to be issued for use in filing tax returns.

Opportunity for erroneous payments to employees

Central payroll issues supplemental paychecks to employees who cannot be paid under the regular automated process, usually because time and attendance reports and personnel documents are inaccurate, late, or missing. Payroll supervisors are required to validate data used for partial or full payment. Because supervisor reviews are not thorough, many clerical errors are not being detected, resulting in erroneous payments to employees.

HEW's payroll procedures require payroll liaison officials or timekeepers to notify central payroll when employees do not receive their pay. Payroll clerks are responsible for re-searching (1) employee pay records, (2) time and attendance cards, (3) earning statements, and (4) documents in employee personnel records. This research establishes whether supplemental paychecks should be issued. Clerks are also responsible for recording the data necessary for computing supplemental payment amounts on input documents used in processing supplemental paychecks. The payroll clerks' supervisors are instructed to review and approve the documents used in preparing lists of checks to be issued by the U.S. Treasury. These reviews are to be made before the lists are prepared.

We noted, however, that supervisor reviews of the input documents were primarily limited to checks of mathematical accuracy and of proper placement of data. They did not make any reviews to determine whether employees were entitled to the supplemental payments and, if so, to establish whether the data used for pay computation was accurately recorded from source documents.

In reviewing supplemental payments authorized by supervisors, we found erroneous amounts were withheld for taxes on 17, or 34 percent, of 50 supplemental payments we reviewed. The erroneous withholdings occurred because noncurrent tax rates were used and because arithmetical errors were made, resulting in paychecks with incorrect net pay being issued to the 17 employees.

In further reviewing 24 of the 50 supplemental payments, inaccurate leave balances had been recorded for 5, or 20 percent, of them. No sick or annual leave balances were recorded for three employees even though they had balances that should have been recorded. Two employees were given 8 hours of sick and annual leave, although they were classified as temporary employees not entitled to earn leave.

Leave erroneously recorded
for employees

HEW has about 7,500 part-time employees who may accumulate sick and annual leave based on hours worked. Incorrect leave balances have been recorded for some of these part-time employees because of weaknesses in HEW's practices for accumulating leave when they are paid through the supplemental process.

Part-time employees earn leave based upon the length of their Federal service and the number of hours worked in a pay period. Employees with less than 3 years of service earn 1 hour of leave for each 20 hours worked; those with 3 but less than 15 years earn 1 hour for each 13 hours; and those with over 15 years receive 1 hour for every 10 hours. To illustrate, 1 hour of earned annual leave should be recorded for a part-time employee with less than 3 years of service who works 24 hours in a pay period. The remaining 4 hours of work should be carried forward to determine the amount of leave earned at the end of the next pay period.

We noted that the document used to process supplemental payments did not have space to record hours worked, which should be carried to the next pay period. Payroll officials said the hours to be carried could be entered on leave records by using another form. They acknowledged, however, that payroll clerks often neglected to use the other form. As a result, part-time employees were not always credited with the full amount of annual leave earned.

In addition to problems with the documents, we also noted that central payroll was not promptly recording leave balances it computed when making supplemental payments. Often over a month elapsed between the processing of a supplemental check and the recording of the leave earned in the period involved. Employees frequently complained about their incorrect balances during this delay.

Employee complaints were generally received by the leave unit in central payroll. When complaints were received, the leave unit adjusted employee leave records without regard to supplemental leave entries already in process and eventually recorded in the leave records. Some employees were thus given twice as much leave as they actually earned.

Payroll officials acknowledged that duplicate amounts of leave had been given to some employees. The officials said that responsibility for correcting leave errors had recently been reassigned to the payroll processing units.

According to them, this change will reduce the potential for duplicate leave entries. Because the reassignment occurred after our review, we did not determine the effect of this change on the accuracy of leave records.

Improper recording of yearend payments

Central payroll clerks often recorded supplemental payments made to employees near the end of the calendar year in the following year's pay records. For example, we reviewed 67 supplemental payments to employees and found that 31, or 46 percent, had been recorded in employees' records for the following year. We also noted that it generally took about 5 weeks for supplemental payments to be recorded in employee pay records.

In our opinion, agency procedures must insure that payments are recorded in employee pay records for the year in which the payments are made. Otherwise, the pay records are understated or overstated and cannot be used to resolve questions relating to employee pay nor to determine amounts to be reported for such deductions as retirement contributions and tax withholdings.

Incorrect earning statements issued to employees

When supplemental payments were improperly recorded in employee pay records, HEW issued incorrect earning statements (W-2 forms) for the employees to use in filing city, State, and Federal income tax returns. HEW attempted to issue corrected earning statements to the employees, but it was not always successful in doing so. For example, in reviewing 30 erroneous pay records, we found that HEW had not issued corrected statements for seven, or about 25 percent, of the employees involved. In four of the seven cases, corrected earning statements had been issued for only 1 of the 2 years involved.

Central payroll officials could not specifically explain why the corrections were not made, particularly since Internal Revenue Service regulations require that corrected statements be issued when originals are found to be incorrect. It appeared that some pay clerks did not realize that supplemental payments incorrectly recorded in 1 year actually misstated pay records for 2 years. Therefore, the clerks only corrected the statements for the first year. At other times, the clerks apparently assumed that amended statements issued to correct other errors also included the adjustments for supplemental pay. We believe this confusion stems from the lack

of writer HEW procedures describing when revised statements must be issued.

Conclusions and recommendations

Better controls are needed over the supplemental pay processes to insure that employees are paid correctly and that leave records, earning records, and earning statements are accurate. We therefore recommend that the HEW Secretary instruct the Director of the Division of Central Payroll to:

- Require payroll supervisors to thoroughly review data accumulated by payroll clerks before approving it. This data should relate to the propriety and accuracy of supplemental payments.
- Monitor the entry of leave credited to employees paid through the supplemental process to insure that duplicate entries are no longer being made.
- Insure that payroll clerks understand and follow the procedures established to credit leave records of part-time employees receiving supplemental payments.
- Revise central payroll's procedures so that supplemental pay is recorded in employee pay records for the year in which payments are made and develop procedures describing the circumstances in which employee earning statements must be revised.

NEED TO ELIMINATE POTENTIAL FOR EXCESSIVE PAY TO EXPERTS AND CONSULTANTS

In fiscal year 1976 HEW paid about \$4.7 million to approximately 2,000 experts and consultants it employed. Some of these employees might have been paid excessively because:

- Multiple pay records were maintained for some experts and consultants, and controls were inadequate to detect multiple payments for the same services.
- Many time reports for experts and consultants were submitted long after services were rendered. Sometimes no means existed to establish the validity of the reports.

--Payroll clerks sometimes changed time and attendance reports to show that work was performed on an authorized assignment, when in fact experts and consultants had submitted reports showing they had spent time on unauthorized assignments.

Multiple pay records

HEW's procedures allow six different pay records to be maintained for each expert and consultant employed by HEW. In 1973 the HEW Audit Agency pointed out that inadequate controls over the multiple pay records had permitted improper and fraudulent payments to consultants. Although we could not establish whether fraudulent payments were continuing, we noted that questionable payments had been made. Missing or illegible records, however, often prevented us from establishing the propriety of payments.

HEW appoints experts and consultants on either a temporary or intermittent basis, and these appointments specify compensation at either hourly or daily rates. By law, employment on an intermittent basis cannot exceed 130 days in a year, and employment on a temporary basis (over 130 days in a year) cannot exceed 1 year. Since experts and consultants are allowed to hold several appointments at the same time, central payroll's records are designed to handle up to six pay records for each expert and consultant. An identification number is assigned to each appointment for pay and other purposes, and all current appointments are shown on a master list of consultant appointments. A separate paycheck is issued for work performed under each appointment.

Central payroll's automated system has edits or checks programed in computers to prevent experts and consultants paid under each pay record from exceeding the equivalent of 14 days work, or a maximum of 80 hours, per pay period. No automated edits or manual controls, however, exist to prevent experts and consultants from being paid for 14 days or 80 hours work under each of the six separate pay records or to prevent duplicate payments for a lesser amount of time. As a result, experts and consultants could receive up to 12 weeks or 480 hours of pay during a 2-week period or receive multiple payments for the same services or hours of work.

In 1973 HEW's Audit Agency reported that overpayments totaling \$3,397 were made to three consultants with dual appointments. The Audit Agency attributed the overpayments to inadequate timekeeping practices and inadequate internal controls to insure that consultants are not compensated more than once for the same work.

HEW officials said it was desirable for accounting purposes to maintain separate pay records for each appointment held by an expert or consultant. They also said that combining separate appointment data under one pay record would not be compatible with the automated payroll system's design. They acknowledged, however, that controls could and should be implemented to prevent duplicate payments and payments in excess of 14 days or 80 hours during a pay period under the multiple pay records.

Late time reports

Without specific HEW procedures requiring experts and consultants to submit time reports at the end of pay periods, reports for such employees are often submitted many months after the work was said to be performed. As a result, the clerks must spend a considerable amount of time trying to establish the validity of the reports, an effort that is not always successful.

Time and attendance reports for experts and consultants should be prepared by HEW's designated timekeeper for the office receiving the services. The timekeeper should certify that the entries in the report are correct, and a supervisor should also verify the accuracy of data and authorize central payroll to make payments for the time reported. HEW, however, has not established specific procedures requiring that experts' and consultants' reports be submitted at the end of the pay periods for which the reports are prepared.

Payroll clerks said that each month they processed many late reports for experts and consultants. For example, one pay clerk said that she processed about 20 late reports each pay period. In reviewing 20 of the late reports, we found that the reports were received by clerks from 6 to 32 weeks after the pay period in which the work was said to have been performed. Clerks also said they spent a considerable amount of time attempting to verify data submitted in the late reports. We could not establish whether their efforts were always successful because many of the records needed to verify entitlement to pay were illegible.

We see no justifiable reason for the delays in submitting time and attendance reports if the reports were prepared when work was performed and were certified at the end of the pay period. If reports are not prepared until shortly before they are submitted, however, the accuracy of the work hours reported and certified becomes questionable. Only the timekeeper's memory or unofficial records and notes could be used to prepare the reports. These are not acceptable sources for obtaining accurate and reliable information for hours worked, especially when a

considerable amount of time has elapsed between the date of the work and the submission of the reports.

The time and attendance reports for experts and consultants must be submitted at the end of each pay period to comply with standards in our Policies and Procedures Manual for Guidance of Federal Agencies (6 GAO 15). As specified in the manual, no more than 12 days may elapse between the date a pay period closes and the date employees, including experts and consultants, are paid for work performed in the period.

Unauthorized changes to time reports

HEW's procedures require that time and attendance reports for experts and consultants contain the appointment identification number under which the reported work was performed. The procedures also require that the number be matched against those in a master file to insure that the pay is made under a valid appointment number. When the payroll clerks found an invalid number on a report, however, they simply changed it to one shown on the master record without the change being verified or approved by appropriate officials.

In our examination of 139 biweekly reports, we found that pay clerks had changed the appointment numbers in 12 instances. Again, missing or illegible records prevented us from fully investigating all of these cases. We were able to establish, however, that in one of the cases a consultant was paid \$466.90 even though the consultant did not have a current appointment authorizing employment with HEW. Other improper payments to experts and consultants may result from these unauthorized changes. And, payroll cannot assure that the proper appropriations are being charged for salary payments since multiple appointments for experts or consultants may be authorized under different appropriations.

Conclusions and recommendations

HEW's system for paying its experts and consultants contains serious weaknesses related to time and attendance reporting. Because of illegible and missing records, we did not attempt to establish the full extent of improper payments resulting from the weaknesses. We are therefore recommending that the Hew Secretary instruct the Director of the Division of Central Payroll to:

- Determine, in conjunction with the Inspector General's office, the propriety of past payments to experts and consultants and initiate action to recover any payments found to be improper.

- Include controls in the automated payroll system to insure that duplicate payments or payments for over 14 days, or 80 hours, of work in a biweekly pay period are not made to experts and consultants.
- Develop regulations requiring time and attendance reports for experts and consultants to be submitted at the end of each pay period in which they work.
- Instruct pay clerks to return to timekeepers any time and attendance reports with erroneous data and require timekeepers to justify or explain any corrections or alterations.
- Tell experts and consultants of the need for time reports to be submitted properly and accurately and emphasize that erroneous reports will delay payments of their salaries and wages.

NEED FOR EFFECTIVE CONTROLS OVER PAY ADJUSTMENTS

HEW's procedures provide for payroll clerks to prepare input documents, called adjustment edit worksheets, to (1) correct previous errors in employees' pay and (2) pay amounts, including special bonuses, that cannot be handled by the regular or the supplemental process. Information in the input documents bypasses certain essential computer edits, and the payroll clerks frequently initiate pay adjustments without other individuals verifying the propriety and accuracy of the documents. As previously pointed out by HEW's internal auditors and us, the processing of pay adjustments without adequate supervisory checks can compound the number of pay errors and provide the opportunity for making fraudulent or otherwise unauthorized payments.

Our Policy and Procedures Manual for Guidance of Federal Agencies (6 GAO 7) cautions agencies to include in their payroll system adequate controls to insure that all adjustments to pay, leave, and allowances are properly authorized. In our 1969 report on HEW's payroll system, we reported inaccuracies in pay adjustments that were made to correct previous errors in pay. We also discussed the need for great care in making such adjustments so that pay errors will not be compounded and extended over long periods.

In January 1971 HEW's internal auditors reported an error rate of about 8.6 percent in adjustments to correct

previous pay errors. The internal auditors believed that adequate review by others could have prevented the errors. They did not make recommendations, however, because central payroll officials said the problems with accuracy of pay adjustments would be corrected by revisions to the payroll system implemented in June 1972.

We considered the adequacy of control procedures in the revised system to see if pay adjustments were appropriately and properly authorized. Payroll clerks must prepare the adjustment edit worksheet for a proposed pay adjustment. In doing so, they should manually research and calculate the adjustment to an employee's pay. The worksheets can be used to change most factors affecting employee pay including

- rates for base, premium, and other types of pay;
- hours of work or leave taken;
- amounts withheld for Federal and State taxes and other purposes; and
- amounts for special awards and bonuses.

The worksheets become the means for putting data into the computers to adjust employee pay. In HEW's automated payroll system, the data processed from the worksheets bypasses essential computer edits designed to check on the accuracy and appropriateness of payments. Moreover, central payroll has no written procedures requiring reviews to establish the propriety and accuracy of adjustments before payroll clerks submit the edit sheets for computer processing. The potential therefore exists for unintentional or intentional errors by payroll clerks to go undetected for a long time.

We also noted that the adjustment edit worksheets had been used to pay regular or premium wages that were rejected by computer edits because the wages could potentially exceed the maximum annual salary allowed by law. For example, computer edits prevented the payment of 21 overtime hours to a GS-rated employee because the overtime payment plus the employee's regular salary would have exceeded the maximum pay permissible by law (5 U.S.C. 5547). The law prohibits payments exceeding the maximum pay rate for a GS-15 employee. About 2 weeks after the computer's action, the employee's field office asked central payroll to pay the employee for the 21 hours of overtime. A payroll clerk prepared an adjustment edit sheet that was used to issue the employee a \$213.99 check for the overtime. In combination with the

employee's regular pay, the amount exceeded the maximum limit authorized by law.

Conclusions and recommendations

Because pay clerks are allowed to adjust employee pay records without review and approval by supervisors, they have the opportunity to conceal errors or fraud. Also, the lack of review and approval makes it difficult to determine whether unauthorized payments are being made and whether previous errors in pay have been properly corrected. We therefore recommend that the HEW Secretary instruct the Director of the Division of Central Payroll to:

- Require supervisors of pay clerks to verify the propriety and establish the accuracy of all information in edit sheets proposing adjustments to employee pay.
- Require the reviews to be completed and the adjustments approved before the edit sheets are submitted for computer processing.
- Include the requirement for review and approval in Central Payroll's operating manual.

NEED TO ESTABLISH CONTROL OVER TEMPORARY PAY RECORDS

Central payroll has no established procedures to transfer data on temporary records to permanent pay records once they are established. Opportunities therefore exist for improper payments to be made and erroneous withholding statements to be issued to employees.

HEW's payroll system identified each employee's master pay record by social security number. New employees without a social security number are assigned temporary identification numbers for pay purposes until valid numbers can be obtained from the Social Security Administration. Since 1971 HEW has issued temporary identification numbers to approximately 400 employees. Using special computer programs, we identified 91 temporary pay records, maintained under special identification numbers, that were still active. Several had been active since 1972. Analysis of these records and other related data showed that central payroll did not follow any consistent practice for handling the temporary pay records when valid social security numbers were obtained.

Many times the temporary records were properly closed out. At other times, however, a new pay record was established under the valid social security number while the temporary record continued in active status. These dual pay records provide the opportunity for erroneous payments. For example, one employee had been improperly paid \$2,164.80 because of such records. Also, sometimes action was not taken to create a new pay record after receiving valid social security numbers for employees. Instead central payroll continued processing payments under temporary numbers.

We noted that no written procedures existed to explain how temporary records should be handled once permanent ones are established. This condition has also led to confusing and erroneous withholding statements being issued to 24 of the 91 employees with active temporary numbers. Specifically,

- 12 employees were issued statements under temporary numbers although the correct social security numbers were available when the statements were issued;
- 7 employees with a combined income of \$32,745 were issued no statements at all;
- 1 employee was issued separate statements under both a temporary number and a valid social security number; and
- 4 employees were issued statements that did not include their total income. (Income amounting to \$5,762 earned under the temporary numbers was not reported for 3 employees, and income of \$3,264 earned by the other employee under his permanent social security number was not included.)

Conclusions and recommendations

Since paychecks can be issued to employees under both permanent and temporary social security numbers, the potential exists for improper or fraudulent payments. Temporary pay records have been maintained for excessive periods of time because no procedures for eliminating them have been established. The lack of procedures has also created confusion resulting in erroneous earning statements. We therefore recommend that the HEW Secretary instruct the Director of the Division of Central Payroll to:

- Purge pay record files of all temporary pay records for which there are also permanent records.
- Implement procedures to insure that only one pay record can be active for an employee at a time.
- Implement followup procedures to insure that new employees obtain social security numbers within 30 days.

**BETTER MICROFILM COPIES OF
TIME AND ATTENDANCE REPORTS NEEDED**

Central payroll microfilms all time and attendance reports and retains microfilm reels for use in payroll research and audits. Microfilm copies of reports for some employees were completely illegible; others were of poor quality and useless. Research to verify complaints about pay errors therefore could be delayed while original copies of the reports are obtained from storage facilities outside of Washington, D.C.

The illegible microfilm copies of records resulted from attempts to microfilm time and attendance reports for about 2,000 consultants and experts. Such reports for these employees were on blue paper, and the microfilming process HEW used would not reproduce data from that color paper. Apparently, HEW officials were not aware of this situation, because they continued to have the documents microfilmed.

Central payroll was aware that the time and attendance reports microfilmed for other employees were of poor quality. For example, 72 of 129 microfilm reels of time and attendance reports we examined were labeled "fogged," meaning the reels contained a number of microfilm copies of reports that could not be read.

Central payroll officials attributed the poor quality of the microfilms to untrained and careless employees. Officials said the backlog of work did not allow them to replace any copies of time and attendance reports. We believe the poor quality of the microfilm contributes to HEW's backlog and the time spent to review and replace illegible microfilm would be minimal compared to the time required to retrieve original copies of the reports from storage. Moreover, we believe that the time spent by payroll officials to review the microfilm could be minimized by establishing a quality control program providing for rejection of any reels of film found to contain illegible microfilm.

Conclusions and recommendations

Economic advantages exist in retaining copies of time and attendance reports on microfilm, including reductions in storage costs and personnel costs to research records. Also, the use of microfilm expedites record research and makes it possible to respond more quickly to employee complaints about pay errors. Because of the poor quality of the microfilm, however, HEW cannot always realize these benefits.

We believe action should be taken to improve the quality of central payroll's microfilms and recommend that the HEW Secretary instruct the Director of the Division of Central Payroll to:

- Institute quality controls over microfilming of all employee time and attendance reports to provide for rejecting any illegible copies.
- Change the consultants' and experts' time and attendance reports as necessary so that they will reproduce legibly on microfilm.