



Florida Department of Transportation

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ANANTH PRASAD, P.E.
SECRETARY

September 12, 2014

Ananth Prasad, P.E.
Secretary
Department of Transportation
605 Suwannee Street
Tallahassee, Florida 32399-0450

RE: **Auditor General Report No. 2014-184**
Department of Transportation
Operational Audit of Payroll and Personnel Processes
Selected State Agencies

Dear Secretary Prasad:

As required by Section 20.055(5) (h), Florida Statutes, attached is the six month status of corrective actions taken as reported to us by the responsible action officials for the subject audit. This update details the implementation or current status of the audit recommendation for our agency. This six-month update will also be filed with the Joint Legislative Auditing Committee, as required by statute.

If you have any questions, please call me at 410-5823.

Sincerely,

Robert E. Clift,
Inspector General

RC: cm

Enclosure (1)

cc: Joint Legislative Auditing Committee- Kathy Dubose, Staff Director
Chief Inspector General's Office- Melinda Miguel, Chief Inspector General

FLORIDA DEPARTMENT OF TRANSPORTATION
6-month Follow-up to the
Office of the Auditor General
Operational Audit of Payroll and Personnel Processes at Selected State Agencies
Report #: 2014-184

Finding No. 3: State agency and DFS processes and procedures for salary reissuances should be enhanced to avoid overpayments to third parties for miscellaneous post-tax deductions. Additionally, State agencies did not always timely initiate efforts to collect from third parties overpayments made as a result of canceled salary payments.

State agencies are periodically required to cancel salary payments if necessary changes are identified after the BOSP's payroll deadlines. Reasons for canceling salary payments include, but are not limited to, late processing of a salary rate change, duplicate payment, errors in amounts deducted from an employee's gross pay, or changes in the number of hours to be paid due to delays in the completion and approval of employee time records. Salary payments made by paper warrant may also be canceled if the warrant was lost. Cancellations are generally to be processed within 24 hours and the new payment is usually made through the On-Demand Payroll System.²³

State employee salary payments include deductions for Federal income and payroll taxes and tax-deferred deductions such as pension and other employee benefit contributions. Salary payments may also include pre-tax deductions such as deferred compensation and medical reimbursement account contributions, as well as other miscellaneous post-tax deductions. State employees may voluntarily authorize these miscellaneous post-tax deductions to be paid to third parties such as banks and credit unions; medical, dental, and life insurance providers; and charitable organizations. As described in the BACKGROUND section of this report, approximately 98 percent of State employee salary payments are made by EFT. Likewise, miscellaneous post-tax deductions are primarily paid through EFT.

Within the FLAIR Payroll Component, the salary payment and the deduction payment processes are separate. As a result, when State agency personnel cancel a salary payment, the payment is canceled, and any Federal income and payroll taxes and pretax deductions are automatically recovered through the BOSP payroll process; however, any miscellaneous post-tax deductions are paid. Unless State agency personnel change the default deduction codes, when a corrected payment is reissued through the On-Demand Payroll System, the miscellaneous post-tax deductions will be paid again. The BOSP Payroll Preparation Manual included instructions to State agencies for processing EFT and warrant salary payment cancellations. Salary payments made by EFT are to be canceled electronically in FLAIR, while those made by paper warrant require destruction of the paper warrant and a record of the destruction be maintained. The BOSP Payroll Preparation Manual also provided instructions for requesting refunds and recovering from third parties any overpayments for miscellaneous post-tax deductions resulting from salary payment cancellations.

Two methods were available to State agencies to electronically avoid the reissuance of miscellaneous post-tax salary deductions when a salary payment was reissued. One method included the use of a BOSP salary refund code that was available to all State agencies.

The other method included the use of agency-specific recovery codes created and assigned by the BOSP. When reissuing the salary payment, the State agency could utilize these recovery codes to direct to the agency the amounts that would routinely be paid as miscellaneous post-tax deductions. By employing either of these methods, the State agency could prevent the duplicate payment of the miscellaneous post-tax deductions and avoid the need to seek a refund from a third party. Our review of the BOSP Payroll Preparation Manual disclosed, however, that the Manual did not include instructions for State agencies regarding the use of the salary refund code or the agency-specific recovery code to prevent miscellaneous post-tax deductions overpayments when reissuing salary payments.

The DOT did not initiate recovery for a \$790 deduction until after our audit inquiry and 303 days after the related employee salary payment was canceled.

The absence of detailed guidance, in both the BOSP Payroll Preparation Manual and agency policies and procedures, may have contributed to the untimely recovery of overpayments disclosed by our audit procedures. Establishment of specific BOSP guidance for the use of BOSP salary refund and agency-specific recovery codes to prevent overpayments, and agency policies and procedures for recovering overpayments from third-parties, would better ensure that appropriate methods are utilized by agency personnel when canceling and reissuing salary payments and, as applicable, would promote the prevention or timely recovery of miscellaneous post-tax deduction overpayments.

23 The On-Demand Payroll System is administered by the BOSP and is designed to make one-time payments to employees and may be used to process payments in emergency situations.

Note: Text and tables not specific to DOT are not included in the finding text in this update.

Recommendation: We recommend that the DFS provide specific guidance to State agencies regarding the methods available to prevent overpayments of miscellaneous post-tax deductions related to salary payment reissuances. Additionally, we recommend that the DACS, DCF, and DOC establish policies and procedures regarding salary payment cancellations and reissuances and the recovery of overpayments from third parties and that the DMS update its policies and procedures to address monitoring the recovery of overpayments. We also recommend that State agencies take appropriate steps to ensure the timely recovery of overpayments of State funds.

Audit Response:

Agree. The Office of Comptroller Disbursement Operations Office (DOO) Payroll Processing Handbook includes detailed instructions for collection of miscellaneous deductions from vendors and state pretax deductions. Instructions include requirements for timeliness and follow-up. Although significant delay occurred in this one instance, upon recognition the overpayment was immediately recovered from the vendor and the funds have been deposited.

6-month Follow-up Response: Completed.