Office of Management and Budget
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June 14, 2021

Ms. Kyle Adamonis, Executive Director of Human Resources/Personnel Administrator
Department of Administration
One Capitol Hill
Providence, RI 02908

Dear Ms. Adamonis:

At the request of The Executive Director of Human Resources/Personnel Administrator, the Office of Internal Audit has completed its audit of the Department of Administration Division of Human Resources enterprise payroll process. The audit was conducted in conformance with the Institute of Internal Auditors (IIA) International Standards for the Professional Practice of Internal Auditing and by the authority given to the unit as stated in accordance with the Rhode Island General Laws (RIGL) § 35-7.1-1- Establishment of The Office of Internal Audit. The recommendations included herein have been discussed with members of management, and we considered their comments in the preparation of this report.

RIGL §35-7.1-10 (d), entitled *Annual and interim reports*, states, "Within twenty (20) calendar days following the date of issuance of the management response copy of the draft audit report, the head of the department, agency, public body or private entity audited shall respond in writing to each recommendation made in the audit report…." Accordingly, management submitted their response to the audit findings and recommendations, and such response is included in this report. Pursuant to this statue, OIA may follow up regarding recommendations included in this report within one year following the date of issuance.

We would like to express our sincere appreciation to the staff of the Department of Administration for the cooperation and courtesy extended to the members of our team during the course of this audit.

Respectfully yours,

Michael Sprague, CIA
Chief

Cc: Jonathan Womer, Director, Office of Management and Budget
        Bijay Kumar, Chief Information Officer, Department of Administration
        Honorable Ryan W Pearson, Chairperson, Senate Committee on Finance
        Honorable Marvin Abney, Chairperson, House Finance Committee

Audit Executive Summary

Why the Office of Internal Audit Did This Audit?

At the request of the Executive Director of Human Resources/Personnel Administrator, the Office of Internal Audit ("OIA") conducted an audit of the Division of Human Resources payroll time reporting processes and controls, specifically processes for agency submission of attendance, efficiency of payroll practices and internal controls over the accuracy of payments.

The purpose of this engagement is to identify internal control weaknesses in statewide payroll practices; identify areas for standardization and uniform policy; streamline payroll practices; and provide guidance for operational efficiency of statewide time reporting. Additionally, assist with the identification of key system requirements for a future HRIS/Payroll system.

Background Information

The Department of Administration ("DOA") processes payroll for all state employees, approximately 15,000 personnel statewide. This includes those a part of the Judicial, Legislative and Executive branch, colleges, and universities.

The Division of Human Resources ("HR") within the DOA completes all human resource management functions for the Executive branch state agencies; approximately 9,000 state employees. The Office of Employee Services, Payroll, Data which is a part of HR is responsible for all aspects of payroll processing and data management procedures for the branch.

To Strengthen Controls, the Division of Human Resources should:

- Integrate settlement agreements, arbitration decisions, and other contract amendments into primary document

- Document and implement formal payroll policies and standard operating procedures related to:
    - Recapture of leave time
    - Calculation of overtime
    - Annual salary to hourly rate conversions
    - Compensatory time

- Implement statewide standards for time keeping and time reporting documentation

- Consider the following system design requirements in proposals for the new Human Resource Information/Payroll System:

    - Integrated Human Resource and payroll standardized data and tables
    - Electronic timesheets with an electronic approval hierarchy
    - Automated controls over:
        - Recapture of overtime hours
        - Calculation of overtime payments
        - Enforcement of rules related to supplementary payments

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Objective and Scope

At the request of the Executive Director of Human Resources/Personnel Administrator, the Office of Internal Audit conducted an audit of the Division of Human Resources controls over time recording, reporting, and processing. The audit concentrates on processes for agency submission of time and attendance reporting and internal controls over the accuracy of wage payments. The purpose of this engagement is to prepare the Division for an enterprise Human Resource Information System (HRIS) by:

1. Identifying internal control weaknesses in statewide payroll practices.
2. Providing guidance for operational efficiency of statewide time reporting.
3. Identifying areas for standardization and uniform policy.
4. Streamlining payroll practices and eliminate inefficiencies.
5. Noting key system requirements for a future HRIS system.

The scope of this audit focused on the statewide payroll policies, procedures, and disbursements during the period of July 1, 2019 through February 1, 2020.

Methodology

As part of the audit work, we gained an understanding of the time reporting and recording processes and related payroll and human resource functions. To address the audit objective, we performed the following:

- Interviewed personnel, including administrative staff.
- Researched and considered Rhode Island General Laws and agency rules, regulations, union contracts, settlement agreements and arbitration decisions.
- Obtained an understanding of key payroll functions.
- Performed analyses of key business functions.
- Reviewed system user access controls.
- Performed analytical procedures related to recorded payroll exceptions.

The substantive test work included a review of 80 State of Rhode Island employee payroll disbursements for the period of July 1, 2019 through February 1, 2020 totaling approximately $591,000. This sample of 80 payments was judgmentally selected from units with the most complex timekeeping obligations. The Office of Human Resources was unable to provide timesheets for two of the samples; accordingly, the testing discussed throughout this report is based on a test sample size of 78. This focused primarily upon higher risk operations with 24-hour operations or units with a high propensity for supplemental payments including: Department of Behavioral Healthcare, Developmental Disabilities and Hospitals, Department of Corrections, Department of Human Services, Department of Children, Youth, and Families, Department of Health, and Department of Revenue.

Consistent with the objective to advise the Division of Human Resources regarding the system requirements of a new HRIS platform, the sample was chosen specifically to identify breakdowns in the current process. Therefore, the results of the sample are not intended to represent the average employee.

Introduction

Background

Effective June 20, 2005, in accordance with Rhode Island General Law (RIGL) 36-4-16[1], The Rhode Island Department of Administration (DOA) became responsible for the overall management of the state HR functions and services, including: strategic planning; directing, developing and implementing a statewide program of personnel administration; labor relations; employee benefits; training and development; and Workers' Compensation. The intent of this consolidation was to centralize and standardize human resource and payroll practices across state agencies.

Currently, state agencies develop and utilize independent time keeping and reporting practices. The Office of Employee Services, Payroll and Data (Payroll) within Human Resources (HR) is responsible for reviewing the personnel transactions for conformance to merit system law, personnel rules, union contract provisions and state policies. This office uses the state legacy payroll system to record time worked. It, in conjunction with the legacy human resource mainframe, are the backbone of the State of Rhode Island payroll and human resource functions.

These legacy systems have been in place for over 30 years and suffer from significant practical limitations. As a result, there is currently an effort underway to implement a new Human Resource Information System (HRIS) and Payroll system which will modernize timekeeping, time reporting, payroll, and human resource functions.

Process Overview

The legacy payroll system operates using an "exception based" payment system. This means that payments are predicated upon an employee's scheduled hours. The base payment is programmed using information from HR including the employee position title, pay scales, employment status, and scheduled hours. All scheduled hours are disbursed each pay period unless a payroll analyst inputs an "exception" into the payroll system. Exceptions include leave time, overtime, and any supplemental payments made to employees in addition to their standard wage.

State employees are eligible for supplements to hourly wages for performing specific types of work or for working at specified times including:
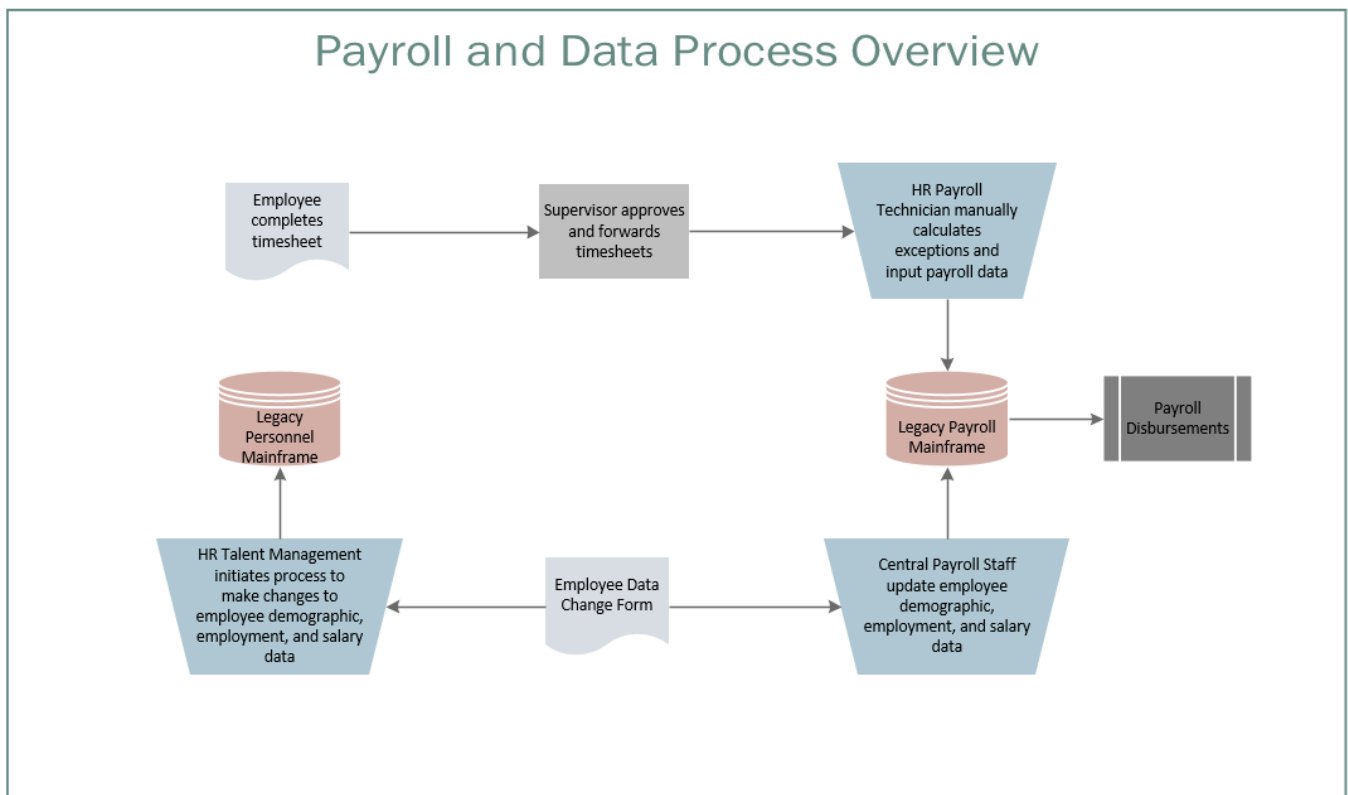
- Holiday Pay
- Night and evening shift differentials
- Stipends for work on weekends
- Payments for "call-in" shifts or "on-call" hours

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[1] *Unclassified pay plan board – Abolishment – Transfer of functions.* Upon the effective date of this section [June 20, 2005], the unclassified pay plan board shall be abolished, and all powers, duties and obligations of the board conferred thereon pursuant to the provisions of this chapter shall be transferred to and administered by the department of administration. Any reference to the unclassified pay plan board within the general laws shall now be construed to refer to the department of administration.

Primarily, these supplementary payments are the product of various labor union agreements. Because each union negotiates independently with the State, the eligibility rules for wage adjustments vary significantly between the contracted unions.

Exceptions are determined through manual review of timesheets by payroll staff. A dedicated staff of 22 analysts manage this paper-based time reporting process (along with other HR duties and responsibilities) at a budgeted administrative cost of approximately $1.5M annually. The payroll system does not have an integrated timekeeping module. As a result, time and attendance records are documented primarily in paper format and then transcribed into the payroll system manually by payroll staff.

Depicted below is a simplified representation of the current payroll practices.

Payroll and Data Process Overview

Employee completes timesheet → Supervisor approves and forwards timesheets → HR Payroll Technician manually calculates exceptions and input payroll data → Legacy Payroll Mainframe → Payroll Disbursements

Legacy Personnel Mainframe

HR Talent Management initiates process to make changes to employee demographic, employment, and salary data ← Employee Data Change Form → Central Payroll Staff update employee demographic, employment, and salary data

This manual transcription process is inefficient and contributes to control weaknesses within the payroll cycle. Timesheets completed on paper forms are collected and compiled by agency staff and delivered to payroll staff via emailed forms, USPS mail, or interoffice mail. This process leads to:

- Unnecessary resource use associated with storing timesheets at an offsite facility requiring staff time and effort to recover documents when necessary. According to Rhode Island Secretary of State's retention schedule for HR, payroll records must be retained by HR for 10 years.[2]
- This manual storage system does not provide an efficient and effective means of document retrieval.
- Delays in receipt of timesheets, illegible information on timesheets, delays in processing accurate payroll information and manual correction in future pay periods.

The inefficient, paper-based time keeping system causes a significant administrative burden on the Human Resource department, and increases risk of untimely, inaccurate, or incomplete time recording. As noted under the "Methodology" section, payroll staff were unable to locate timesheets for two samples. This failure to locate documentation underscores the difficultly with maintaining and processing physical timesheets and the need for a modernized HRIS system.

Recommendations and Management's Responses

An integral part of any system implementation is the documentation of system design requirements (SDR). Standardization of processes, documentation of procedures and practices, and comprehensive determination of desired system functionality will reduce the risk of incorrect system design. As such, recommendations throughout the report will focus on standardization of process and procedure and development of system design. When applicable, the recommended changes should be implemented prior to development of SDRs and incorporated into the business requirements section of future requests for proposals.

Implement and Operationalize Standardized Enterprise-Wide Policies and Procedures for Time Recording and Reporting

Policies and procedures are a cornerstone of organizational controls as they set an expectation for employee behavior and responsibilities while standardizing protocols. Specifically, written payroll policies and procedures help ensure accurate and timely attendance records.

Since the centralization of Human Resources in 2005, until the past few years, there had not been an initiative to standardize and document formal policies and procedures across the enterprise. Attempts to implement standard practices have proven difficult due to differences in union contract rules and historical precedent set by prior management practices. As a result, there are significant operational weaknesses related to policy and procedures for time recording or reporting.

The OIA performed a policy and procedure gap analysis to prepare HR for an integrated timekeeping system module and identified the following areas in which documentation of policies and practices should be developed, implemented or improved, and communicated.

- Contractual Changes
- Timesheets
- Rate of Pay Determination

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2 State of RI Record Retention Policy PER6.1 Department of Administration – Personnel (risos-retention-schedule-production-public.s3.amazonaws.com)

- Overtime Rate Methodology
- Recapture of Leave Hours
- Compensatory Time

It is critical that the organization have comprehensive and standard operating policies and procedures (SOPs) governing the timekeeping and payroll processes prior to an implementation of a HRIS. These SOPs lay the foundation for the software developers to program rules, calculations, and reports into the HRIS and determine the overarching processes in which the system will operate.

The sections below detail areas of policy weakness or gaps which must be addressed to properly determine system requirements and create design documents for the system developers.

Integrate Contractual Amendments, Settlement Agreements or Arbitration Decisions into Future Contracts

In order to properly comprehend the contractual obligations and develop standard operating procedures to enforce these terms, one must understand:

- Executed union contracts
- Settlements and letters of agreement which clarify contract ambiguities
- Arbitration agreements and decisions

While policies and procedures are the driving force of organizational operations, they are predicated upon statutory and contractual obligations and limitations. Currently, there are 22 union contracts posted publicly on the State Human Resources website,[3] supplemental letters of agreement and arbitration decisions which impact the interpretation of these contracts are maintained independently by Department of Administration, Labor Relations Unit and distributed to payroll staff. This makes it difficult for Human Resource management to promulgate comprehensive policies and procedures because they must navigate through these separate documents and agreements to identify applicable rules.

For example, RIBCO section 7.8 states that an employee is entitled to double time when an employee is "*required*" to work more than two consecutive shifts. Originally, this was interpreted by the State to mean that when an employee elected but was not required to work a third shift, the clause was not applicable. During 1988, the union filed a grievance, contending that all instances in which an employee works more than two shifts should be payable at double time. The grievance was settled during 1989 with terms that required the State to pay double time to all employees "*required or permitted*" to work more than two shifts. However, the current contract language related to the payment of overtime, executed during 2017, remains the same as compared to the executed 1988 contract.

Due to the importance of these supplemental documents in understanding the terms, conditions, and responsibilities of management and employees, it is critical that amendments be made to the primary contract which reflect the supplemental agreements.[4] In the current system of disparate documented agreements and

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3 http://www.hr.ri.gov/labor/
[4] Refer to *Supplementary Payments and Exception Hours* section of this report.

interpretations, the primary contract document does not provide a clear picture of all contractual obligations, terms, and conditions. In doing so it:

- Reduces public transparency
- Complicates enforcement by human resource and payroll analysts and departmental managers
- Increases the risk of miscalculation of overtime pay

Recommendations:
1. Integrate "permanent" amendments or "perpetual" agreements from arbitration decisions, settlements, and letters of agreement into primary contract language each time a new contract agreement is executed.
2. Review union contracts and develop a comprehensive listing of supplemental payment eligibility criteria.
3. Implement a recurring training program for payroll staff regarding payroll procedure, contract changes and policy updates.
4. Work cooperatively with Legal Services to develop SOPs to improve the communication of contractual terms and conditions that effect payroll or time reporting prior to implementation of HRIS.

Management's Reponses: Standardization of processes and procedures and quality management are critical to efficient and effective operations. While the lack of modern software and systems to track and easily enable formulas, standardized processes and automatic transactions puts an increased burden on staff and requires much of this work to be done manually, the recommendations above will be adopted and will be implemented over a period of time.

With contract negotiations beginning in June 2021, the Division of Human Resources will take a proactive approach to work with union leadership to incorporate permanent amendments or perpetual agreements, as agreed by the parties, into new collective bargaining agreements (CBAs). On a go forward basis, all agreements entered into and arbitration decisions will be tracked by the Labor & Employee Relations unit to ensure that any permanent amendments are identified for future CBAs.

The HR Payroll unit Human Resources Coordinators will be responsible for working with the Labor & Employee Relations unit to develop and maintain a comprehensive listing of supplemental payment eligibility criteria as well as to implement a recurring training program for payroll staff regarding payroll procedure, contract changes and policy updates.

Standard operating procedures for HR Payroll, some of which are already in process, will continue to be drafted by the HR Payroll staff in coordination with the Labor & Employee Relations Unit and Legal Services to ensure any contractual terms and conditions are accurately captured.

Responsible Party: HR Executive leadership, HR Payroll Human Resources Coordinators, Labor & Employees Relations leadership and Legal Services.

Anticipated Completion Date: Ongoing through December 31, 2021.

Standardized Time Reporting

RIGL § 28-14-12 requires that "every employer shall keep a true and accurate record of hours worked and wages paid each pay period to each employee . . ." The purpose of this law is to ensure that employers maintain documented evidence that workers have been properly compensated for their time.

During the OIA's review, the OIA noted the following:

- Inconsistencies with documenting specific hours of work performed.
    - Some employees record the actual time-in and time-out while others only record the total number of hours worked, or the total number of "exception hours."
- No standardized method for identifying employee lunch breaks.
    - This makes it challenging to determine total hours worked.
- Inconsistent use of supplemental agency specific timesheets to document certain types of additional hours worked (call-in, on-call, special assignments).
    - Separating records into multiple documents increases risk that documentation is misplaced. Payroll staff was unable to locate two requested timesheets from the sampled transactions.
- Illegible and ambiguous handwritten timesheets.
    - Due to the short processing timeline, analysts do not have time to follow-up on all timesheet questions, instead they default to scheduled shift length when there is uncertainty.
- Time sheets were reviewed that included social security numbers (SSN).
    - This poses an unnecessary risk of breach of employee confidentiality as SSN is defined to be personally identifiable information.

This lack of time reporting standardization inhibits the ability of payroll staff to maintain accurate and understandable documentation to support payments made to employees. Software developers utilize business process rules to design system functionality and interfaces. It is critical that statewide reporting standards are published prior to system development to ensure that business needs are identified and communicated as system design requirements.

Recommendations:

5. Develop and deploy standard enterprise-wide time reporting policies and guidelines.
6. Solicit feedback from agency management regarding required functionality for electronic timekeeping and reporting software. Ensure that any new software adequately addresses the needs of agencies and are incorporated in the SDR.

Management's Reponses: The lack of a HRIS and modern payroll and time reporting (or time and attendance) systems, puts a significant burden on all parties including HR Payroll, agencies and employees as timesheets are manual paper based and as noted have not been standardized across all state government agencies. While we recognize that some agencies have differing schedules, shifts, grant reporting requirements, etc., the various methods for which time is reported manually could be vastly improved saving time and providing some efficiencies prior to implementation of necessary systems. With the support of the Executive Director of Human Resources, the HR Payroll Human Resources Coordinators will initiate the development and implementation of standardized

time reporting policies, guidelines and timesheet templates (expanding on what has already been done at the Department of Administration). Meetings will be held with Executive Branch agency leadership to identify and document specific needs and accommodate those that are necessary. This will also ensure that necessary requirements are incorporated into future integrated systems.

As part of the Enterprise Applications Strategic Plan, a significant portion of work was completed in 2019 and early 2020 to identify HRIS, Payroll and Time Reporting functionality needed to transform into a model of efficiency. This included feedback from stakeholders relative to electronic timekeeping. Upon approval to move forward with the Enterprise Applications Strategic Plan, specifically the HRIS/Payroll/Timekeeping components, further feedback will be obtained from all stakeholders.

Responsible Party: HR Executive leadership, HR Payroll Human Resources Coordinators, and Division of Information Technology (for the Enterprise Applications Strategic Plan).

Anticipated Completion Date: Develop and deploy standard enterprise-wide time reporting policies and guidelines – September 2021. The completion date for recommendation number 6 will be dependent on the approval to move forward with the next steps for Enterprise Applications Strategic Plan.

Annual to Hourly Salary Conversion

State worker salaries are expressed in "Annual Salary" amounts, but weekly salaries and overtime are based upon a derived "Hourly Rate."

It was determined, while reviewing payroll records, that annual salaries are converted to hourly wage rates by assuming an exact 52-week work-year: 52 (weeks) * 7 (days) = 364 (days). A true calendar year contains 365.25 days. Underestimating the number of days in a work-year increases wage rates by the same proportion. In simplified terms, employees are paid for an additional 1.25 days per calendar year.

A 1981 federal audit report details that Federal Auditors[5] concluded the above methodology effectively causes an overpayment to workers as it underestimates the total number of work hours in calendar year. The analysis performed by the Federal Auditors determined that the average work year for a 40-hour employee contains 2,087 annual work hours. Subsequent to the issuance of the federal report, 5 U.S.C. 5504(b) was updated to require the use of the 2,087 annual work-hour basis to calculate hourly wage rates for federal government employees.

Management was unable to provide a policy related to this salary conversion of annual salary to hourly rate. To quantify this issue payroll records totaling approximately $700M for the period July 1, 2019 – February 1, 2020 with an annualized total payroll based upon these records of $1.2B were analyzed and recalculated using the federal methodology. Based upon these values, an annual payroll savings was calculated of between $3.5M and $4.5M (.34%) by adopting the federal hourly wage methodology.

Recommendation:
7. Develop, implement, and communicate a policy for conversion of annual salaries to hourly rates.
    a. Consider the federal methodology discussed above as means of improving the accuracy of payroll

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5 https://www.gao.gov/products/FPCD-81-60

disbursements.

Management's Reponses: While many employers calculate 2080 work hours in a year based on a typical 40 hour work week multiplied by 52 weeks in a year, we recognize based on the summary by OIA above that there are 2,087 average work hours in a calendar year, based on year-to-year fluctuations in working days over a 28-year period (Federal Auditors).

The current calculation by the State to breakdown the annual salary to an hourly rate is by first dividing the annual salary into twenty-six (26) pay periods, which is the number of pay periods in a typical fiscal year; then the biweekly amount is divided by the number of the work week hours in the pay period based on a 5-day work week. This has been the method of calculation over the years and while not considered to be inaccurate, we respect the savings that may be realized by the State in considering the federal methodology.

A change to use federal hourly wage methodology would require a review by the Department of Administration leadership. Any change that would result in a reduction in employees hourly rate calculation will require discussion/negotiation with the unions as the present hourly rate calculation will be considered a "past practice".

Responsible Party: Director, Department of Administration, Executive Director of Human Resources, Deputy Personnel Administrator – Labor & Employee Relations, Office of Management & Budget.

Anticipated Completion Date: June 30th for review and consideration. Based on decision and negotiations (if it is determined a change should be made), policy and standard operating procedure development, implementation and communication to follow – TBD.

Overtime Rate Methodology

The Fair Labor Standards Act (FLSA) mandates that any employer which requires or permits an employee to work more than 40 hours in any work week must pay a premium of 50% for all overtime hours worked.

The Federal Department of Labor outlines a detailed methodology[6] for computing overtime in which a "normal rate" of pay is calculated each week to determine the overtime supplement. This normal rate of pay is the average rate of pay for all remuneration received. It is calculated by totaling all non-overtime payments and averaging by the total number of hours worked.

The State uses a simplified methodology for computing overtime payments to employees. The base hourly rate and any supplemental payments are separately multiplied by 50% to determine the overtime supplement.

For example, a hypothetical 40-hour work week standard employee worked 48 hours in one week, at an hourly rate of $15.00. 8 of the overtime hours worked were on a night shift which is eligible for a $3.00 shift differential. Both State and FLSA methodologies calculate regular earnings before any overtime supplement as:

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6 Overtime Pay | U.S. Department of Labor (dol.gov)

	Hours	Total Pay
Base Rate ($15)	48	$ 720.00
Shift Differential ($3)	8	$ 24.00
Total Base Earnings	48	$ 744.00

However, the chart below depicts the differences in the calculation pay including overtime based on the FSLA and State methodologies:

FLSA	
Total Earnings	$744
Total Hours Worked	48
Normal Rate ($744 / 48 Hours)	$ 15.50
Multiplier	50%
FLSA OT Supplement	$ 7.75
OT Hours	8
Total OT Supplement	$ 62.00
Total Payment	$ 806.00

State of RI	
Base Rate	$ 15.00
Shift Differential	$ 3.00
Total Rate ($15 + $3)	$ 18.00
Multiplier	50%
FLSA OT Supplement	$ 9.00
OT Hours	8
Total OT Supplement	$ 72.00
Total Payment	$ 816.00

In the above example, the State methodology generates a payment that is $10 more than the FLSA requirement. While the methodology used by the State is not prohibited by Fair Labor Standards, it frequently creates more generous payments to employees than is dictated by law or contractual obligation.

Recommendation:
8. Develop, implement, and communicate a SOP which adheres to the Federal Department of Labor methodology for calculating overtime when an alternative method is not required by contractual obligation.
   a. Track those contractual obligations that deviate from the FLSA for future HRIS developers.

Management's Reponses: While the Division of Human Resources is supportive of the Federal Department of Labor detailed methodology of computing overtime payments to employees, the legacy payroll system is exception based and has limitations that do not allow it to distinguish between FLSA rules and union collective bargaining agreement/contract rules. Additionally, unions that do not have contractual obligations that deviate from the FLSA rules, may seek to invoke the parity clause in their contracts which applies to wages or benefits received by any other labor organization.

A modern HRIS & Payroll system approved as part of the Enterprise Applications Strategic Plan would provide for the ability to adhere to the Federal Department of Labor methodology for calculating overtime while also allowing for alternative methods required by contractual obligation. The Division of Human Resources would seek to implement this methodology into such an HRIS & Payroll system. However, given that even with future approval an HRIS & Payroll system implementation will take a few years, HR will seek to determine whether there is another feasible way to accomplish the same.

Until such time, HR will begin to develop a draft SOP to ensure consistency in processes and procedures by staff and will track those contractual obligations that deviate from the FLSA for a future HRIS & Payroll system. The Division of HR will also review the proposed recommendations with the Director of the Department of Administration

Responsible Party: Executive Director of Human Resources, HR Payroll Human Resources Coordinators, Division of Information Technology (for the Enterprise Applications Strategic Plan), Deputy Personnel Administrator – Labor & Employee Relations and Accounts & Control.

Anticipated Completion Date: July 30, 2021 for HR's work with DOIT and Accounts & Control to determine whether there is an alternative way to accomplish the recommendation. August 27, 2021 for draft of SOP and tracking of contractual obligations that deviate from the FLSA.

Recapture of Leave Hours

RIGL §36-4-63(c) states in pertinent part that any time a state employee:

> *… discharges any sick leave or leave . . . he or she shall be permitted to work overtime only after he or she has worked his or her full thirty-five (35) or forty (40) hours, whichever is appropriated for the job classification … excluding specifically, planned vacation days, personal days, and leave for death in employee's immediate family[7].*

HR payroll staff have interpreted this law such that any sick leave or leave without pay (LWOP) discharged by an employee during a work week must be paid at their normal salary rate until the total discharged leave time has been recaptured. However, in addition to sick leave and LWOP, there are other forms of "hours paid for but not actually worked" which are not currently recaptured or addressed in a SOP. Specifically, the recapture of Special Time Off[8], Administrative Leave, Union Business Time, and Family Medical Leave Act hours are not addressed by policy.

The OIA performed an analytical procedure using the payroll data from the period under review. From this analysis, we estimate that these special leave codes generate between $160,000 and $224,000[9] annually. Without a formal entity-wide policy it is unclear whether any of these codes quality for recapture under state law.

Recommendation:
9. Develop, implement and train staff regarding a statewide policy consistent with RIGL § 36-4-63 documenting the specific forms of leave which must be recaptured prior to earning overtime.

Management's Reponses: The Division of Human Resources agrees that an SOP must be developed and implemented as well as staff trained and/or retrained in the recapture of leave hours to ensure accuracy and consistency. Prior to the drafting of the SOP, a review of previous arbitration decisions, court cases, and CBAs that address RIGL § 36-4-63 and/or Special Time Off, Administrative Leave, Union Business Time, and Family Medical Leave Act hours will need to be completed by HR Labor & Employee Relations and Legal Services to

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7 36-4-63(e) adds military leave to list of leave which is eligible for overtime.

8 Special time off includes approved leave which does not fit into other predefined categories. Examples include time in which an employee interviews for a new state position during a work-day and a two-hour leave period for the annual union picnic.

9 Due to inconsistent data in the legacy system and inconsistent use of payroll codes by HR analysts we are unable to exactly quantify.

determine any necessary provisions to be included in the SOP. HR will also review with the Director of Administration the recommendation regarding a statewide policy.

Responsible Party: Deputy Personnel Administrator – Labor & Employee Relations and Legal Services for review of arbitrations, court cases and CBAs relative to the above.

HR Payroll Human Resources Coordinators for drafting, implementation and training of staff relative to SOP.

Anticipated Completion Date: October 31, 2021.

Compensatory Time

Certain union agreements permit employees to accrue compensatory time (comp time), also known as leave time in lieu of overtime earnings, for hours worked in excess of their scheduled weekly shifts. Compensatory time is accrued at a rate of 150% the number of overtime hours worked. If compensatory time is not used within a specified period, it is paid out to employees at their base wage rate.

The State does not have SOPs related to the accrual of time in weeks during which compensatory time is discharged. When this type of leave is discharged and accrued in the same week, a compounding effect occurs in which hours previously accrued at a rate of 150% are included in the calculation of compensatory hours earned; they are multiplied by 150% again. The concept is illustrated below using a hypothetical employee (scheduled 40 hours per week) who works one hour of overtime in week one and fully discharges the earned comp time each week.

Example of Current Practice				
Scheduled Hours	Week 1	Week 2	Week3	Week 4
Hours Worked	41	40	40	40
Comp Time Discharged	0	1.5	2.25	3.375
Comp Time Earned	1.5	2.25	3.375	5.0625

The OIA performed an analysis of compensatory time discharged in weeks during which overtime is incurred for the period under review. Based upon this analysis, we estimate that between $65,000 and $90,000[10] of additional overtime expenses are incurred as a result of this policy gap.

Recommendation:
10. Implement a SOP to recapture or limit the discharge of compensatory time during weeks in which overtime work is performed.

Management's Reponses: While the Division of Human Resources is in agreement that compensatory hours discharged should not be calculated as hours worked, the practice noted above has been in effect for many years. As such, the unions will argue past practice and potentially a change to wages. Prior to implementing an SOP to change the practice, a review will be completed by HR Labor & Employee Relations and Legal Services to determine

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10 As previously stated throughout this report, due to inconsistent data in the legacy system and inconsistent use of payroll codes by HR analysts we are unable to exactly quantify this waste of funds.

the barriers to making this change and any grievance and arbitration concerns. Compensatory time can also be revisited during union negotiations, if necessary.

Responsible Party: Deputy Personnel Administrator, Labor & Employee Relations and Legal Services for the review of any barriers to implementing the change. HR Payroll Human Resources Coordinators for drafting, implementation and training of staff relative to the SOP.

Anticipated Completion Date: June 30, 2021 for review and discussion with Deputy Personnel Administrator, Labor and Employee Relations and Legal Services. Dates for any union negotiations and SOP to be determined after such review is completed.

Determining Functional System Design Requirements

Integrate Human Resource and Payroll Information

The modern business world has improved process efficiency dramatically using integrated systems and electronic transaction processing. Integrated systems streamline processes by eliminating the need for multiple data entry points. Entering the same data multiple times may lead to inconsistencies and ultimately, improper payments.

Some major benefits of this integrated system design are:

1. Process efficiency - Minimization of manual data entry reduces clerical staff time and provides the opportunity to perform higher-level and strategic human resources tasks and projects.
2. Data accuracy - Centralized storage of common data elements ensures that all systems utilize up-to-date information during processing.

The outdated information systems currently in place for payroll and human resource management at the State of RI limit the accuracy and efficiency of the payroll process.

The human resource and time keeping legacy systems each contain independent data tables related to employee demographic and employment information and are significantly limited as to the ability to make modifications. As a result, demographic and payment information must be updated separately in each legacy system. This lack of system integration results in:

- Multiple systems requiring manual updates of same information;
- An inefficient use of staff time and effort; and
- Payment errors as a result of untimely processing.

During the OIA's substantive test work, 8 out of 78 sampled payments included retroactive adjustments for untimely processing of employment information. Additionally, the hourly wage rate of three employees' information was not updated when they moved between shift-differential eligible schedules, resulting in an underpayment of 220.3 shift differential hours to one employee during the pay period and an overpayment of 202.2 shift differential hours to two employees.

In the current environment, timely and accurate system updates are delayed and diminished due to the manual processes. An HRIS and Payroll System with integrated human resource, time and attendance and payroll modules will reduce process redundancies and decrease payment errors related to unreconciled data.

Recommendations:
11. Establish a data dictionary for each field in the legacy system. Validate that definitions for fields that contain same information in both systems and have the same definition.
12. Incorporate integration of employee demographic and employment information into the SDR for a timekeeping module.

Management's Reponses: The recommendations above would be completed as part of the "as is" and "to be" process for a modern, integrated HRIS, Payroll and Timekeeping system. The Enterprise Applications Strategic Plan implementation process includes a review of data conversion and migration requirements. The Plan has been submitted for funding and approval under the American Rescue Plan Act proposal solicitation. The Division of Human Resources continues to strongly advocate for a modern, integrated HRIS, Payroll and Timekeeping System and will ensure that the recommendations above are implemented as part of the Plan. All of the above issues were previously identified by HR, Accounts and Control, DoIT and other stakeholders.

Responsible Party: Executive Director of Human Resources, Division of Human Resources Personnel and Department of Information Technology.

Anticipated Completion Date: To be determined upon approval of Enterprise Applications Strategic Plan.

Improve Payroll Authorization Controls

Authorization is a process by which organizational expenditures are confirmed and approved by designated agency staff or management. This provides assurance that the resources of the agency are being expended for goods or services which are necessary for the operation of the business and for which delivery has been verified. Statewide payroll authorization controls are designed inefficiently and do not operate effectively. The legacy system does not allow for electronic timesheets, and therefore, approvals are documented through physical or pdf electronic signatures and manual authorization by payroll personnel. The OIA found:

- The legacy system does not include functionality to identify employee supervisors. HR payroll staff do not use a listing of authorized signers to determine if timesheets are properly approved and authorized.
- 46 out of 78 timesheets sampled did not contain either a supervisor or employee signature, or both:
  - 7 Timesheets did not contain employee attestation
  - 23 Timesheets did not contain supervisor signatures
  - 16 Timesheets contained neither signature

Due to the lack of standardization in time reporting, timesheet authorization practices vary between agencies. The HR staff relies upon the timesheet authorization controls at agencies, but the true ownership of the disbursement process ultimately rests with the Payroll office. As the process owner, the Payroll office should be

responsible for the design and oversight to ensure adequate assurance that the time and attendance records submitted by employees are properly authorized.

Recommendations:

13. Develop and communicate a listing of agency staff allowed to approve and sign timesheets.
14. Include an electronic approval workflow in the SDR for the electronic timekeeping module of the HRIS system.
15. Ensure that the HRIS system can maintain an approval hierarchy structure such that only designated supervisors may approve timesheets.

Management's Reponses: As noted above under *Standardized Time Reporting*, the lack of a HRIS and modern payroll and time reporting (or time and attendance) systems, puts a significant burden on all parties including HR Payroll, agencies and employees as timesheets are manual paper based and as noted have not been standardized across all state government agencies. While we recognize that some agencies have differing schedules, shifts, grant reporting requirements, etc., the various methods for which time is reported manually could be vastly improved saving time and providing some efficiencies prior to implementation of necessary systems. With the support of the Executive Director of Human Resources, the HR Payroll Human Resources Coordinators will initiate the development and implementation of standardized time reporting policies, guidelines and timesheet templates (expanding on what has already been done at the Department of Administration). Meetings will be held with Executive Branch agency leadership to identify and document specific needs and accommodate those that are necessary. This will also ensure that necessary requirements are incorporated into future integrated systems.

As OIA notes in this section, the current legacy systems lack the functionality to maintain a listing of supervisors/managers by agency who are authorized to approve and sign timesheets for direct reports. While certain payroll staff make an effort to maintain a manual system of supervisors/managers, it is inefficient, arduous and unsustainable due to constant changes in supervisors/managers at the agencies. That said, HR will include this as part of the work to develop and deploy standard enterprise-wide time reporting policies and guidelines (see *Standardized Time Reporting* above)

The completion date for recommendation number 14 and 15 will be dependent on the approval to move forward with the next steps for Enterprise Applications Strategic Plan. Modern HRIS, Payroll and Timekeeping systems include electronic approval workflows for time reporting as well as approval hierarchy structures and this would be addressed as part of the "as is" and "to be".

Responsible Party: HR Executive leadership, HR Payroll Human Resources Coordinators, and Division of Information Technology (for the Enterprise Applications Strategic Plan).

Anticipated Completion Date: September 30, 2021 for recommendation 13. Completion of recommendation 14 and 15 is dependent on approval of Enterprise Applications Strategic Plan and will be determined upon approval.

Supplementary Payments and Exception Hours

The legacy payroll information system has limited application control functionality to identify and calculate these payments automatically. Due to the manual nature of the timekeeping process, these wage adjustments must be identified by payroll analysts during timesheet transcription.[11] This manual identification requires an analyst to identify the:

- Specific hours of work
- Day of the week the work was performed
- Union affiliation of the employee
- Specific position held by the employee

The most significant limitation of the legacy system's "exception based" timekeeping is the inability to systematically calculate time or date dependent supplemental wage payments.

Combined, these factors create an environment in which the payroll analysts are expected to perform complex analysis, interpretation, and computation of union rules under short timelines. To accommodate the timeline and workload, time sheets are routinely submitted prior to the end of the work week so that the analysts have time to process the timesheets prior to the disbursement date. These early submissions subsequently cause amended timesheets if the estimates differ from the actual shift time. The OIA cannot estimate the impact of these early submissions because it is impossible to know how often an employee did not submit an amended timesheet.

The OIA found errors in 59 of the 78 disbursements reviewed related to supplementary payments and exception hours. In some cases, the data entry errors noted do not necessarily have a fiscal impact. For example, the OIA identified an instance in which Overtime Hours were coded as "Holiday Hours." Both of these codes are paid at the same rate of pay, but the miscoding skews managerial reports used to assess performance metrics.

In other instances, the errors cause improper payments to employees. Overall, the variances identified were fairly evenly distributed between overpayments and underpayments; the net total error for the sample was $2,334 (0.40%) overpaid out of approximately $591,000 in total payments. This is indicative of random errors consistent with human transposition and miscalculation errors.

Although the statewide net fiscal impact of incorrect payments is likely minor, the accuracy of each payment is important because it affects the earnings of individual employees. The absolute errors in payment for sampled transactions totaled $15,913 (2.69%):

- $9,124 in overpayments
- $6,789 in underpayments

While some miscalculations had only a minor impact, others were more significant, 37 samples were miscalculated by more than $100, 3 samples were miscalculated by over $1,000.

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[11] Refer to *Standardize Time Reporting* section of this report.

The State is obligated to accurately compensate employees for work performed. Information systems with properly designed application controls can perform these computations accurately on an automated basis without any human intervention – improving accuracy, consistency, and efficiency of applying contract rules.

Proper design of application controls requires coordination between payroll and authorized management staff. In a process known as "change management":

- Management staff dictate organizational rules and communicate them to IT staff
- IT staff program the rules into the information system
- Management tests and validates that the system rules are applied as intended

The same process should be followed any time there are changes to contract terms, organizational policy, or applicable laws which impact the design of application controls.[12]

Recommendations:

16. Review and correct payment errors identified.
17. Maintain documentation of supplemental payment eligibility criteria for reference when preparing the SDR for the proposed HRIS.
    a. Include system requirement for application controls which apply contract rules based on shift times in the SDR.
    b. Include comprehensive application controls which automatically detect and calculate eligible supplemental payments in the SDR for the proposed HRIS.
18. Design a formal change management process in which application controls are updated in accordance with any future contract amendments, and statutory or regulatory changes.

Management's Reponses: As noted by OIA above, HR payroll staff are expected to *manually* perform complex analysis, interpretation, and computation of union rules under short timelines, given the present environment which provides virtually no automation and constant follow up with agencies and employees. The HR Payroll Human Resources Coordinators reviewed the errors identified by OIA and have made any necessary corrections.

Due to the legacy payroll systems and manual processes and procedures required to effectively process payroll, the turnover rate in the HR payroll unit is high resulting in an almost constant shortage of staff and new employee training. This adds to the potential for errors and compliance issues associated with the payment of proper compensation. In addition, there is a significant frustration level on the part of HR payroll staff, agency management and employees. The implementation of a modern, integrated HRIS, Payroll and Timekeeping system would solve for errors, compliance issues and frustration and provide much more efficient and effective services to stakeholders.

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[12] Refer to *Integrate Contractual Amendments, Settlement Agreements or Arbitration Decisions into Future Contracts* section of this report.

Modern HRIS, Payroll and Timekeeping systems include application controls which allow for applying contract rules based on shift times and which automatically detect and calculate eligible supplemental payments and this would be addressed as part of the "as is" and "to be".

Responsible Party: HR Payroll Human Resources Coordinators, HR Executive Leadership and the Division of Information Technology.

Anticipated Completion Date: HR will review all of the findings as noted throughout the Payroll Audit and make any necessary correction in accordance with management's responses as documented in each of the sections above. The completion date for recommendation number 17 and 18 will be dependent on the approval to move forward with the next steps for Enterprise Applications Strategic Plan.

Overtime Recapture

As discussed at *Recapture of Leave Hours* section of this report, payroll staff has interpreted RIGL § 36-4-63 "Sick leave and other leave – Effect of discharging upon overtime work and overtime compensation" to mean that sick leave and leave without pay must be recaptured at straight time before any overtime multiplier can be awarded.

Application controls for overtime recaptures are poorly designed in the legacy payroll system. For example, the system automatically recaptures leave without pay (LWOP) but it does not recapture sick time. Furthermore, its recapture of LWOP is flawed because it does not account for exceptions to recapture rules. For example, LWOP for military purposes is not subject to recapture, but control recaptures them anyway. In order to circumvent this issue and properly compensate employees, payroll analysts misrepresent the hours under alternate payment codes. Payroll staff acknowledge that overtime and double overtime are routinely converted to and coded as "call-in" hours for the purposes of overriding the recapture control.

This override of controls is concerning because:
- There is a sanctioned practice of overriding an internal control in carrying out normal job functions.
- The process for override involves complex, manual calculations which are subject to error.
- Incorrectly coding an hour of work distorts management reports which impact management decisions.

Regarding sick time recapture, the system does not have automated application controls. As a result, payroll staff are required to identify sick time discharged and manually offset overtime awards during timesheet processing.[13]

The OIA performed an analytical procedure of unrecaptured overtime and estimates between $65,000 and $90,000 of ineligible overtime payments are made to employees as a result of unrecaptured sick time on an annual basis.

Recommendation:

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[13] The manual overrides discussion in this section result in inconsistent data in legacy system. Auditors were unable to exactly quantify testing results as noted throughout this report.

19. Include SDR for application controls which detect all relevant leave time discharged and automatically recaptures overtime in accordance with RIGL §36-4-63.

Management's Response: The Division of Human Resources is in agreement with the summary and recommendation. The completion date for recommendation number 19 will be dependent on the approval to move forward with the next steps for Enterprise Applications Strategic Plan.   Modern HRIS, Payroll and Timekeeping systems include application controls which detect all relevant leave time discharged and will be able to automatically recaptures overtime in accordance with RIGL §36-4-63 and any other related policies, SOPs or contract requirements. This would be addressed as part of the "as is" and "to be".

Responsible Party: HR Payroll Human Resources Coordinators, HR Executive Leadership and the Division of Information Technology.

Anticipated Completion Date: The completion date for recommendation number 19 will be dependent on the approval to move forward with the next steps for Enterprise Applications Strategic Plan.