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[Review of Department of Health, Education, and Welfare Procedures and Practices for Recovering Salary Overpayments]. B-164031. January 5, 1977. 11 pp.

Report to Secretary, Department of Health, Education, and Welfare, by D. L. Scantlebury, Director, Financial and General Management Studies Div.

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Department of Health, Education, and Welfare's (HEW) procedures and practices for recovering salary overpayments were reviewed through examination of overpayment case files and related pay data records and through interviews with payroll personnel. Findings/Conclusions: HEW has not acted promptly to collect hundreds of salary overpayments. As of March, 1976, HEW's files showed that overpayments of \$157,176 were not being collected from 534 active and former employees. These overpayments were outstanding for periods ranging from 7 weeks to 8 years. At the same time, Central Payroll had not made payroll deductions from the 263 employees who had not responded to overpayment notices within 30 days. Central Payroll has also not followed procedures for collecting overpayments from former employees. HEW has discontinued attempts to collect overpayments of \$14,316 to 50 persons that have been outstanding for 3 to 8 years. Recommendations: The Secretary of HEW should initiate payroll deductions to recover overpayments from employees not responding to notices within 30 days; request the Civil Service Commission to offset overpayments of former employees against retirement refunds and annuities; provide accounting controls for payroll overpayments; and improve processing of pay adjustments to recover overpayments accurately. (RRS)

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

DIVISION OF FINANCIAL AND
GENERAL MANAGEMENT STUDIES

B-164031

JAN 5 1977

The Honorable
The Secretary of Health,
Education, and Welfare

Dear Mr. Secretary:

This report is the second of a series on our review of the Department of Health, Education, and Welfare's (HEW's) centralized payroll system. We are reporting our findings to you as soon as each segment of our review is completed so that timely corrective action can be taken.

Since 1969 GAO, the HEW Audit Agency, and a special interagency payroll review panel have issued reports on HEW's centralized payroll system. As a part of our review, we have followed up on actions taken by HEW on recommendations included in these other reports.

Section 112(b) of the Budget and Accounting Procedures Act of 1950 provides that the accounting systems of executive agencies are subject to approval by the Comptroller General. In April 1970 the Comptroller General approved HEW's statement of principles and standards for its accounting systems. HEW said it plans to submit the centralized payroll system's design to the Comptroller General in June 1979.

This report covers HEW's procedures and practices for recovering salary overpayments. It does not discuss causes of overpayments or include recommendations for precluding overpayments. These matters will be considered in our fourth report.

We examined overpayment case files and related pay data records and interviewed personnel at HEW's Division of Central Payroll in Washington, D.C.

This report contains recommendations for (1) collecting overpayments promptly, (2) safeguarding files and establishing accountability for overpayments, (3) processing pay adjustments accurately, and (4) providing training and better

supervision for employees. We are also recommending that you have the Assistant Secretary for Administration and Management monitor the implementation of our recommendations.

SALARY OVERPAYMENTS HAVE NOT
BEEN PROMPTLY COLLECTED

HEW did not act promptly to collect hundreds of salary overpayments. As of March 9, 1976, HEW's files showed that overpayments amounting to \$157,176 were not being collected from 534 active and former employees, of whom:

--263 did not respond to overpayment notices (\$85,405).

--221 terminated HEW employment before collection was made (\$57,455).

--50 were on HEW's payroll but collection action had been discontinued (\$14,316).

These overpayments were outstanding for periods ranging from 7 weeks to 8 years.

HEW's overpayment files contained about 500 additional cases for which overpayments were being recovered through payroll deductions. Accounting information for these files had not been accumulated (see p. 6), and we did not tabulate their total value.

The head of each Federal department or agency is required by law (5 U.S.C. 5514) to issue regulations for collecting erroneous payments made to employees and to recover these payments through payroll deductions. GAO's Policy and Procedures Manual for Guidance of Federal Agencies (6 GAO 17) states that departments and agencies shall act promptly to collect indebtedness due the United States.

HEW's personnel manual (Instr. 550-9) provides that when Central Payroll is notified of a salary overpayment, an audit should be made to verify the amount of overpayment. The manual also provides that (1) overpayments of less than \$25 are to be automatically recovered by a single payroll deduction and (2) for overpayments of \$25 or more, a notification of indebtedness (overpayment notice) is to be sent to the timekeeper for transmittal to the employee, explaining the overpayment and requesting repayment by check, money order, or payroll deduction(s). If the employee fails to respond within 30 days after the date of the notice or does

not repay in a lump sum, HEW can recover the overpayment by initiating payroll deductions 30 days from the date of the notice.

Action needed on overpayment notices over 30 days old

As of March 9, 1976, Central Payroll had not made payroll deductions, although required to do so by its personnel manual, from 263 employees who had not responded to overpayment notices within 30 days.

We examined payroll overpayment files for the 263 employees and determined that none of the files contained a response to Central Payroll. The following schedule shows, as of March 9, 1976, how much time had elapsed during which Central Payroll had failed to initiate payroll deductions to recover these overpayments.

Number of days notice was outstanding	Overpaid employees		Overpayments uncollected	
	<u>Number</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
31 to 59	25	8.7	\$ 6,489	7.6
60 to 89	31	11.8	10,899	12.8
90 to 179	62	23.6	31,035	36.3
180 or more	<u>147</u>	<u>55.9</u>	<u>36,991</u>	<u>43.3</u>
Total	<u>263</u>	<u>100.0</u>	<u>\$85,405</u>	<u>100.0</u>

Because Central Payroll did not initiate payroll deductions for notices older than 30 days, the above overpayments were not collected. For example, Central Payroll sent a notice of an overpayment of \$625 to an employee in January 1974. The overpayment file did not contain a response to the notice. Central Payroll did not attempt to recover the overpayment until June 1975--18 months after the notice of overpayment and 4 months after the employee retired. As of March 9, 1976, the overpayment had not been recovered.

In July 1975, the HEW Audit Agency reported to the HEW Deputy Assistant Secretary, Finance, that Central Payroll was not following up on overpayment notices to which employees had not responded. The Deputy Assistant Secretary informed the Audit Agency that procedures would be implemented to correct this situation. We noted that action had not been taken to recover many of the overpayments.

Collections have not been made
from former employees

Central Payroll has not followed HEW procedures for collecting overpayments from former employees. HEW's personnel manual (Instr. 550-9) states that, if Central Payroll cannot recover an overpayment from a former employee, it should apply to the Civil Service Commission to have the overpayment offset against the employee's retirement refund or annuity. If the employee transfers to another agency, the Commission cannot offset the amount owed. The manual further states that Central Payroll is to turn such cases over to HEW's Claims Collection Officer for action.

On March 9, 1976, Central Payroll's inactive file (covering former employees) contained 221 overpayment cases amounting to \$57,455 which had not been collected. Of these cases, 36 involved employees owing \$9,254 who were still employed by HEW. Central Payroll should have recovered these overpayments using payroll deductions. In 184 cases, Central Payroll should have requested the Civil Service Commission to offset the employee's retirement refund or annuity and should have submitted these cases to the Claims Collection Officer. In the other case, Central Payroll requested the Civil Service Commission to offset the employee's retirement refund or annuity.

We examined the inactive overpayment files for the 221 cases and found overpayment notices. However, we found no evidence of collections, such as pay adjustment information, Earnings and Leave Statements, or copies of personal checks, although such evidence is required by HEW's personnel manual when collections are made. The following schedule shows the year the overpayment notices were issued for these cases.

<u>Overpayment notice issued</u>	<u>Number of overpaid employees (note a)</u>
1975	87
1974	71
1973	40
1972 and before	15
Date not shown	<u>8</u>
Total	<u>221</u>

a/Includes 36 employees who were then employed by HEW but were included in the inactive file.

Collection of overpayments
was discontinued

Our examination of overpayment files disclosed 50 additional cases of overpayments amounting to \$14,316 which had been outstanding for 3 to 8 years. According to these files, HEW had stopped trying to collect these overpayments. A Central Payroll official said that the cases originated before she was given responsibility for collecting overpayments and that a lot of time would be needed to determine their status.

We believe that Central Payroll lacked control over these overpayments because it did not act promptly to follow HEW collection procedures when the overpayments occurred.

Other matters

GAO's Policy and Procedures Manual for Guidance of Federal Agencies (2 GAO 7) states that assets (including receivables) should be safeguarded against waste, loss, or improper or unwarranted use. We noted that overpayment files were not maintained in a locked cabinet or located in a restricted area. When we pointed this out to Central Payroll, it moved the files to a restricted area but did not place them in a locked cabinet.

CONCLUSIONS AND RECOMMENDATIONS

HEW needs to follow required procedures for maintaining and collecting salary overpayments to avoid losing thousands of dollars in uncollected overpayments. We recommend, therefore, that you instruct the Acting Director, Division of Central Payroll, to:

- Initiate payroll deductions to recover overpayments from employees who have not responded to overpayment notices within 30 days.
- Request the Civil Service Commission to offset overpayments of former employees against retirement refunds and annuities and refer these cases to HEW's Claims Collection Officer when Central Payroll cannot recover the money.
- Transfer records of overpayments for active employees from the inactive file to the open file and send overpayment notices to the employees.

--Determine for each of the 50 overpayment cases for which collection action was discontinued whether or not the employee is on HEW's payroll and follow appropriate collection procedures.

--Keep overpayment records in locked cabinets.

We recommend also that the Assistant Secretary for Administration and Management take steps to make certain the Acting Director, Division of Central Payroll, acts on HEW Audit Agency recommendations on overpayment actions.

Agency comments

The Acting Director, Division of Central Payroll, generally agreed with our recommendations and said corrective action will be taken as personnel become available.

OVERPAYMENTS NOT RECORDED AS ACCOUNTS RECEIVABLE

HEW did not adequately account for salary overpayments. We estimate that Central Payroll maintained about 1,000 individual case folders for which overpayment information had not been compiled or summarized for financial records and reports. Information on collections and outstanding balances, either by individual or Department-wide, was not readily available. As a result, Central Payroll management could not adequately monitor the effectiveness of its collection activities.

According to GAO's Policy and Procedures Manual for Guidance of Federal Agencies (2 GAO 12.4), accounting for receivables is an important form of control over agency resources because it results in a systematic record of amounts due that must be accounted for.

In July 1975 the HEW Audit Agency reported a need for HEW to account for salary overpayments. We noted, however, that HEW had not acted to develop or implement the needed accounting controls. We believe that adequate accounting controls for overpayments might have alerted HEW to act promptly on overpayments that should have been collected but were not.

CONCLUSIONS AND RECOMMENDATIONS

HEW needs to provide accounting controls for payroll overpayments to avoid neglecting collections and losing funds.

We recommend, therefore, that you instruct the Acting Director, Division of Central Payroll, to:

- Incorporate payroll accounts receivable (payroll overpayments) into HEW's accounting system and develop a system of internal accounting controls. The accounting records and controls should provide detailed reports on new overpayments, collections made, and balances due and an aging schedule of overpayments.
- Monitor payroll overpayment operations to make certain that collections are made promptly and according to written procedures.

We recommend also that the Assistant Secretary for Administration and Management take steps to see that the Acting Director, Division of Central Payroll, acts on HEW Audit Agency recommendations for establishing accounting controls for overpayments. These controls include maintaining accounting records showing individual amounts overpaid, collected, and outstanding.

Agency comments and our evaluation

The Acting Director, Division of Central Payroll, generally agreed with our recommendations and said:

- HEW is developing an automated system for maintaining records of payroll overpayments outstanding and collected. The specifications for the system have been completed and the computer program is being developed.
- New notices of overpayments and completed collections will be recorded and an aging schedule will be prepared when additional personnel are available.

We believe that the Assistant Secretary for Administration and Management should evaluate the Division's staffing requirements and assign appropriate resources.

Because of the importance of collecting overpayments, additional personnel should be assigned temporarily to set up and test a system of accounting records and controls for overpayments. Thereafter, the system can be monitored periodically, and the manual portion can be operated by personnel assigned to processing salary overpayments.

IMPROVEMENTS NEEDED IN PROCESSING
PAY ADJUSTMENTS FOR OVERPAYMENTS

Errors not detected by Central Payroll personnel in processing pay adjustments used to recover salary overpayments have hampered some collection efforts. GAO's Policy and Procedures Manual for Guidance of Federal Agencies (6 GAO 15.2) requires that suitable control procedures be incorporated into each pay system so that payroll data is processed accurately. Where automatic data processing equipment is used, appropriate controls capable of being incorporated into the programed instructions are to be used.

On February 28, 1976, we examined salary adjustments scheduled to recover overpayments from 322 employees. Of the 322 employees, 64 had erroneous salary adjustments. The errors, amounting to about \$4,200, included duplicate adjustment entries and entries listing payroll deductions for the wrong year.

These errors could result in overpayments not being recovered, erroneous amounts being recovered, or amounts not being recovered promptly. For example, two pay adjustments for collecting about \$200 were included in the automated system for one employee. The automated records showed that the collections were scheduled for 1979, but they should have been scheduled for 1975. The error occurred because erroneous data was entered into the automated payroll system and was accepted as valid data. Without a correction, no attempt to collect the overpayment would have been made until 1979.

We noted also that pay adjustments were improperly coded on forms used to enter data into the computer and were rejected from the automated pay adjustment system. For example, we reviewed the input forms for 22 overpayment cases and noted that 5 were rejected because of input errors. The rejection of these cases went unnoticed because input documents and resulting pay adjustments were not reviewed. As a result, about \$2,677 cannot be collected unless adjustment edit sheets are processed correctly. In addition, only partial collections were made in two other cases because of input errors, resulting in the loss of \$447 if correct adjustments are not made.

CONCLUSIONS AND RECOMMENDATIONS

HEW needs to improve its processing of pay adjustments to recover salary overpayments accurately. We recommend, therefore, that you instruct the Acting Director, Division of Central Payroll, to:

- Have all pay adjustment entries reviewed for correctness by a pay unit supervisor before they enter the pay adjustment process.
- Develop edit routines for the automated pay adjustment process to reject duplicate adjustments. Corrective action should be taken on all rejected pay adjustments.

Agency comments

The Acting Director, Division of Central Payroll, generally agreed with our recommendations and said corrective action would be taken.

EMPLOYEES PROCESSING OVERPAYMENTS NEED MORE SUPERVISION AND TRAINING

GAO's Policy and Procedures Manual for Guidance of Federal Agencies (6 GAO 10) states that pay, leave, and allowance functions should be done by competent, adequately trained, properly supervised personnel. A payroll system involves highly specialized areas requiring knowledge of related legislation, regulations, and Comptroller General decisions.

We believe that the lack of effective action to collect overpayments is attributable to inadequate training and supervision of payroll employees who process overpayment cases. These employees need more training and supervision in overpayment file maintenance, collection requirements, and pay adjustment procedures.

According to a Central Payroll official, processing the HEW payroll is a unique operation that is best learned through on-the-job training. In November 1975 we noted that one employee assigned to recover overpayments had been employed by HEW for only about 1 month; another had been employed for only about 6 months. They were not given formal training, nor were they aware of written procedures providing information needed to do their work.

Although on-the-job training is important, we believe close job supervision is also needed. A payroll supervisor, however, said that supervisors cannot provide close supervision because they are doing clerical tasks of absent payroll clerks and technicians. If a member of a supervisor's staff is absent (according to reports, tardiness and absenteeism average 19 percent a day), the supervisor handles the absent staff member's duties.

The supervisor of the employees assigned to overpayment cases said she had enough time to provide only minimal supervision.

CONCLUSIONS AND RECOMMENDATION

HEW needs to provide more supervision and training of employees to improve the collection of overpayments. We recommend, therefore, that you instruct the Acting Director, Division of Central Payroll, to provide formal training and closer supervision of employees assigned to overpayment activities.

Agency comments and our evaluation

The Acting Director, Division of Central Payroll, generally agreed with our recommendation but said that the heavy workload required to issue biweekly payrolls does not permit staff to participate in formal training programs.

We recognize that formal training of staff members may cause temporary short-term problems but believe it will provide long-term benefits for the operation of the payroll system.

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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 and Senate Committees on Government Operations 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 the report.

We are sending copies of this report to the Senate and House Committees on Appropriations and Government Operations; the Director, Office of Management and Budget; the Acting Director, Division of Central Payroll; and the Director, HEW Audit Agency. A copy is also being sent to Congressman Mario Biaggi by agreement because several of his constituents employed by the Social Security Administration have requested help in correcting pay and leave errors.

B-164031

We appreciate the courtesies and cooperation extended to our representatives. We would like to receive your comments and advice on any action taken or planned on the matters discussed in this report.

Sincerely yours,

A handwritten signature in cursive script, appearing to read "D. L. Scantlebury".

D. L. Scantlebury
Director