REPORT TO MANAGEMENT ON

REVIEW OF VACATION AND SICK LEAVE REPORTING

LAMAR INSTITUTE OF TECHNOLOGY

OCTOBER 2002
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October 24, 2002

Dr. Robert Krienke, President
Lamar Institute of Technology
P.O. Box 10043
Beaumont, TX 77710

Dear Dr. Krienke:

Enclosed is the audit report entitled, Report to Management on Review of Vacation and Sick Leave Reporting, October 2002. The scope of the audit included a review of the policies, procedures, and records used in accounting for vacation, sick leave, and compensatory time. The period subject to review was fiscal year 2001 to current date. The objectives were to:

- determine if the necessary internal controls are in place and operating effectively;
- determine if the Vacation/Sick/Compensatory Time Reports (F3.6s) are recorded and reported accurately and in a timely manner;
- determine if the F3.6s are properly approved, accounted for consistently in all departments, and in accordance with established attendance and leave policies and procedures;
- determine if the departmental leave records agree with the Vacation/Sick/Compensatory Time Reports; and
- determine if the employees reported vacation leave and/or compensatory time taken on their F3.6s while attending classes of more than three (3) hours per week during the work day.

The Human Resources Office has a section pertaining to attendance/leave in its Human Resources Policies and Procedures Manual. The office has distributed a revised copy of the manual to each department head. Furthermore, this section is published in the Lamar Institute of Technology Staff Handbook; all employees must certify they have received the handbook.

Based on the results of the audit, Internal Audit noted the following exceptions:

- accounting for compensatory time inaccurately;
- using non-existing codes;
- existing negative leave balances;
- bubbling numbers incorrectly;
- missing signatures and dates;
- submitting late F3.6s to the Human Resources Office; and
In order to strengthen internal controls, as it relates to vacation and sick leave reporting, management should develop policies and procedures that require the supervisor to review the report with due diligence to ensure accuracy of the report.

Also, the Human Resources Office should continue to review the Vacation/Sick/Compensatory Time Reports, paying special attention to earned compensatory time and negative leave balances. This will help ensure the employees have accurately computed and reported compensatory time on the reports and negative leave balances do not appear on the reports. Also, this will help ensure the Institute compensates the employees for hours actually earned and complies with State law.

Based on criteria prescribed by the Rules and Regulations of The Texas State University System, the audit is a Category II.

We appreciate the cooperation received from the Human Resources Office and the individual department during our audit. If you should have comments or questions, I am available at your convenience to review the report.

Sincerely,

Twila J. Baker, CPA
Director of Internal Audit
EXECUTIVE SUMMARY
OBJECTIVES

The Internal Audit Plan for fiscal year 2003 provides for a review of vacation and sick leave reporting. The scope of the audit included a review of the policies, procedures, and records used in accounting for vacation, sick leave, and compensatory time. The objectives were to:

- determine if the necessary internal controls are in place and operating effectively;
- determine if the Vacation/Sick/Compensatory Time Reports (F3.6s) are recorded and reported accurately and in a timely manner;
- determine if the F3.6s are properly approved, accounted for consistently in all departments, and in accordance with established attendance and leave policies and procedures;
- determine if the departmental leave records agree with the Vacation/Sick/Compensatory Time Reports; and
- determine if the employees reported vacation leave and/or compensatory time taken on their F3.6s while attending classes of more than three (3) hours per week during the work day.

Internal Audit selected employees listed on the Vacation and Sick Leave Updates Report and the Vacation Hours Exceeding Maximum Hours Report and examined their F3.6s for fiscal year 2002 to current date. Also, we examined the employee’s class schedules and F3.6s for fiscal year 2001 and 2002, who attended classes of more than three (3) hours per week during the work day.

Based on criteria prescribed by the Rules and Regulations of The Texas State University System, the audit is a Category II.

BACKGROUND

The Leave Coordinator’s position was occupied by a temporary employee during the course of the audit. The employee was in the process of learning vacation and sick leave policies and procedures. Currently, the Leave Coordinator’s position has been filled, and the current incumbent has written complete policies and procedures in accounting for vacation, sick leave, and compensatory time.

Lamar Institute of Technology employees are entitled to take time off from their jobs for various reasons as allowed by the Human Resources Policies and Procedures and by law.

Four (4) employees are associated with the Vacation/Sick/Compensatory Time Reports process: the individual employee, the supervisor, the Leave Coordinator, and the File Magic Administrator. The reports are generated and scanned by a computerized machine unless corrections or adjustments are needed. Corrections are done manually by the Human Resources Office. The Request for Overtime and Leave Form (F3.6A) should be retained for the current fiscal year plus the previous three (3) fiscal years for all employees.
The four (4) employees’ responsibilities associated with the Vacation/Sick/Compensatory Time Reports are as follows:

- The individual employee’s responsibility is to complete an F3.6A; submit the F3.6A to his or her supervisor; complete an F3.6; and submit it to the supervisor for approval.

- The supervisor’s responsibility is to approve or deny leave requested on the F3.6A; retain a copy of the F3.6A and submit the original to the President’s office; review the F3.6 and sign it; and submit the F3.6 to the President’s Office. The office will then submit the F3.6s to the Human Resources Office in a timely manner.

- The Leave Coordinator’s responsibility is to comply with the Vacation/Sick/Comptime (F3.6) Report Procedures.

- The File Magic Administrator’s responsibility is to comply with the Vacation/Sick/Comptime (F3.6) Report Procedures.

**RESULTS OF REVIEW**

The Human Resources Office has a section pertaining to attendance/leave in its Human Resources Policies and Procedures Manual. The office has distributed a revised copy of the manual to each department head. Furthermore, this section is published in the Lamar Institute of Technology Staff Handbook; all employees must certify they have received the handbook.

Most of the responsibility lies on the individual employee, who is responsible for accurately reporting the actual time worked or official absences on the F3.6. In addition, the supervisor’s signature on the F3.6 signifies his or her certification of the accuracy of the report.

Internal Audit examined the selected employees’ F3.6s and F3.6As and noted the following exceptions:

- accounting for either State or Federal compensatory time inaccurately;
- using non-existing codes;
- existing negative leave balances;
- bubbling numbers incorrectly;
- missing signatures and dates;
- submitting late F3.6s to the Human Resources Office;
- missing a signature on the Request for Overtime and Leave Form;
The Human Resources Office should adjust the employees’ current leave balances, whom Internal Audit examined during the audit, to ensure hours earned and/or taken are accurate due to some of the exceptions noted above.

CONCLUDING REMARKS

Based on the results of the audit, Lamar Institute of Technology needs to enhance its adequacy and effectiveness of internal controls for the Vacation/Sick/Compensatory Time Reports. Management should take action to correct the inaccuracies on the F3.6s, and internal controls need to be strengthened to improve vacation and sick leave reporting.

As stated in the Human Resources Policies and Procedures, Section 6.3 (3), the individual employee may be subject to discharge, if he or she intentionally reports time worked inaccurately.

However, no consequences exist for the supervisor. Management should develop policies and procedures that require the supervisor to review the report with due diligence to ensure the accuracy of the report. In order to strengthen internal controls, as it relates to vacation and sick leave reporting, the supervisor should approve or disapprove requested leave and compare the F3.6 to the departmental leave records (F3.6As) for accuracy and completeness.

Also, the Human Resources Office should continue to review the Vacation/Sick/Compensatory Time Reports, paying special attention to earned compensatory time and negative leave balances. This will help ensure the employees have accurately computed and reported compensatory time on the reports and negative leave balances do not appear on the reports. Also, this will help ensure the Institute compensates the employees for hours actually earned and complies with State law.

We appreciate the cooperation received from the Human Resources Office and the individual department during our audit. If you should have comments or questions, I am available at your convenience to review the report.
REPORT TO MANAGEMENT ON REVIEW OF VACATION AND SICK LEAVE REPORTING

LAMAR INSTITUTE OF TECHNOLOGY
OCTOBER 2002

Copies of this report have been mailed to the following:

Lamar Institute of Technology
Dr. Robert Krienke, President
Mr. Jonathan Wolfe, Vice President for Finance and Operations
Dr. Kenneth E. Shipper, Vice President for Instruction
Ms. JoAnn Russell, Director of Human Resources

The Texas State University System
Mr. J. Wiley Thedford, Vice Chancellor for Finance
Mr. Jerry W. Neef, Director of Audits and Analysis

Project Auditors
Ms. Twila J. Baker, Project Director
Ms. Daphne McIntire, Project Auditor
DETAILED FINDINGS
AND
RECOMMENDATIONS
INACCURATE VACATION/SICK/COMPENSATORY TIME REPORTS (F3.6s)

Some employees’ Vacation/Sick/Compensatory Time Reports (F3.6s) are inaccurate and incomplete.

Internal Audit obtained and selected nine (9) out of seventy (70) employees listed on the Vacation and Sick Leave Updates Report for July 2002. We examined their F3.6, based on what was reported to the Human Resources Office, and noted no exception.

Also, we compared the Vacation and Sick Leave Updates Report for July 2002 to the F3.6s to ensure negative and/or inaccurate leave balances did not appear on the August 2002 F3.6s and noted no exception.

Finally, we obtained five (5) names listed on the Vacation Hours Exceeding Maximum Allowed Report for fiscal year ending 2002. We examined their F3.6s, based on what was reported to the Human Resources Office, and noted the following exceptions:

- 40% used non-existing codes;
- 20% had existing negative leave balances;
- 80% had missing signatures and dates;
- 20% bubbled numbers incorrectly; and
- 40% submitted late F3.6s to the Human Resources Office.

For example, the codes listed on the F3.6 are as follows:

- * (V) - Vacation
- * (S) - Sick Leave
- * (H) - Holidays
- * (ST) - State Comp. Time Taken
- * (FT) - FLSA Comp. Time Taken
- * (FE) - FLSA Earned
- * (SE) - State Comp. Earned
- * (E) - Emergency Leave/Bereavement
- * (J) - Jury Duty

An employee coded ‘SC’ on the December 2001 F3.6; however, the code should have been ‘SE’ based on the bubbled section. Also, another employee coded ‘I’ on the August 2002 F3.6; however, it should have been ‘S’ based on the bubbled section.

Another exception example was bubbling numbers incorrectly on the F3.6. An employee bubbled ‘ST’ incorrectly on the March 2002 F3.6. The employee bubbled ‘44.00’ hours, but the time taken was ‘24.00’ hours, which resulted in a negative leave balance on the April 2002 and May 2002 F3.6s. Human Resources had corrected the error, and the accurate balance was shown on the June 2002 F3.6.

The Human Resources Policies and Procedures Section 6.9 (16) states negative leave and compensatory time balances are prohibited.
Supervisors should review the F3.6s to ensure accuracy and completeness of the report. Also, the Human Resources Office should review the monthly Vacation and Sick Leave Updates Report to examine if negative leave balances exist due to a computer error or by the individual employee. The office should then correct the error, if any, before next month’s reports are distributed. This will help ensure the employee has accurate leave balances each month.

**RECOMMENDATIONS**

We recommend departments comply with the Human Resources Policies and Procedures pertaining to attendance and leave.

We recommend the responsible parties review, sign, and date the Vacation/Sick/Compensatory Time Report (F3.6) to ensure accuracy and completeness.

We recommend departments use the codes listed on the Vacation/Sick/Compensatory Time Report (F3.6) or stated by the Human Resources Office to ensure consistency and accuracy of the reports throughout the Institute.

We recommend departments submit the Vacation/Sick/Compensatory Time Reports (F3.6s) by the set date to the Human Resources Office, so hours earned and/or taken are accurately accounted on next month’s reports.

We recommend the Human Resources Office review the monthly Vacation and Sick Leave Updates Report to examine if negative leave balances exist. If it does exist, then the office should investigate and make corrections before next month’s reports are distributed, if necessary.

**MANAGEMENT’S RESPONSE**

Management will take steps to reinforce to departmental personnel their responsibility for the accuracy and completeness of reports.

Management agrees with all recommendations. The Leave Coordinator will continue to review F3.6s as they arrive and prior to submission to the Computer Center.

**INACCURATE COMPENSATORY TIME EARNED AND REPORTED**

Some employees inaccurately earned and reported State and FLSA (Fair Labor Standards Act) compensatory time on their Vacation/Sick/Compensatory Time Reports.

State compensatory time is defined as excess hours earned other than FLSA when a non-exempt employee
records more than forty (40) hours for a work week through the combination of holidays, vacation time, sick leave, and hours worked. State compensatory time is accrued at the rate of one (1) hour for each excess hour over forty (40) in a work week.

FLSA overtime is defined as the time a non-exempt employee is required to work in excess of the standard forty (40) hours in a work week. Any paid leave or holidays taken during that week are not counted as hours worked in determining overtime hours. FLSA overtime is accrued at the rate of 1.50 hours worked over the forty (40) hours in a work week. The official work week is from 12:01 a.m. Saturday until 12:00 midnight the following Friday.

Internal Audit obtained and selected nine (9) out of seventy (70) employees listed on the Vacation and Sick Leave Updates Report for July 2002. We examined their F3.6 and noted two (2) non-exempt employees inaccurately earned and reported FLSA overtime.

For instance, Lamar University had a power outage on Tuesday, July 16 and some University employees were excused from work for administrative leave. The power outage also affected the Lamar Institute of Technology campus. We verified the two (2) employees’ attendance with their supervisor and was informed the employees were excused from work for administrative leave.

One (1) of the employee’s work schedule for July 13 through July 19 consisted of ‘1.75’ hours of sick leave; ‘1.25’ hours of State time taken; ‘3.00’ hours of earned State compensatory time; and ‘1.25’ hours of earned FLSA overtime. The employee did not meet the definition of FLSA overtime; therefore, the ‘1.25’ hours should have been State compensatory time.

The other employee’s work schedule for July 13 through July 19 consisted of ‘0.50’ hour of FLSA overtime. The employee did not meet the definition of FLSA overtime; therefore, the ‘0.50’ hours should have been State compensatory time.

Also, Internal Audit obtained five (5) names listed on the Vacation Hours Exceeding Maximum Allowed Report for fiscal year ending 2002. We examined the employees’ F3.6s and noted no exception.

The Human Resources Office should adjust the employees’ current State and FLSA leave balances, due to the employees’ error. Also, the office should continue to review the F3.6s, paying special attention to earned compensatory time, to ensure the employees have accurately computed and reported State and FLSA compensatory time on the reports.

Some departments did not comply with the following Human Resources Policies and Procedures Section 6.7:

- (4) states State compensatory time must be taken during the twelve (12) month period following the work week earned or it will be denied;
(7.1) states both FLSA and State compensatory should be taken within sixty (60) days when possible;
(7.2) states department heads should encourage their staff to take their compensatory time as soon after it is earned whenever possible; and
(7.4) states supervisors may require non-exempt employees who have requested leave to exhaust their FLSA compensatory time balances before using annual vacation leave.

Internal Audit examined the selected F3.6s and noted an employee’s FLSA overtime leave balance increased. The employee had not taken any FLSA leave time during fiscal year 2002. Also, the employee had outstanding State compensatory time since November 2001.

The Human Resources Policies and Procedures Section 6.7 (3.2) states each non-exempt employee may accumulate no more than 240 hours of overtime.

We examined the selected F3.6s and noted no exception. Also, we obtained and examined the Contingent Liability Report for FLSA Comp Time Report as of August 31, 2002 and noted no exception.

Management should consider developing a system to monitor the employees’ State compensatory time. This will ensure the employees take their compensatory time within the twelve (12) month period following the work week, or it will be denied as stated in the Human Resources Policies and Procedures. If management does not develop such a system, the Institute will over compensate the employees for hours that should not exist due to either the employees’ miscalculation or the expired time period.

Also, the supervisors should encourage their employees to take their compensatory time as soon as it is earned. This will help ensure the employees do not lose their earned compensatory time due to the expired time period.

RECOMMENDATIONS

We recommend the Human Resources Office adjust the employees’ current State and FLSA compensatory leave balances, due to the employees’ error, for those employees examined during the audit. We further recommend the Human Resources Office continue to review the Vacation/Sick/Compensatory Time Reports (F3.6s), paying special attention to earned compensatory time, to ensure the employees have accurately computed and reported State and FLSA compensatory time on the reports.

We recommend the Human Resources Office deduct the employee’s current State compensatory leave balances if leave was not taken within the twelve (12) month period as stated in the Human Resource Policies and Procedures, for those employees examined during the audit.
We recommend management consider developing a system to monitor the employees’ State compensatory time to comply with State law.

We recommend departments encourage their employees to use their compensatory time and exhaust their FLSA compensatory leave balances before using annual vacation leave. Also, the departments should accommodate employees’ use of accrued compensatory time as stated in the Human Resources Policies and Procedures.

**MANAGEMENT’S RESPONSE**

Management agrees with all recommendations.

**INACCURATE LEAVE BALANCES AT YEAR END**

Some employees’ leave balances are inaccurate at the end of fiscal year 2002.

Internal Audit obtained five (5) names listed on the Vacation Hours Exceeding Maximum Allowed Report for fiscal year ending 2002. The report consists of the employee’s name, social security number, hours over maximum, vacation balance before update, and sick leave balance before update.

Internal Audit recalculated the employees’ vacation and sick leave from September 2001 through August 2002. We then compared and noted differences between our computation to the report due to the following exceptions:

- bubbling numbers incorrectly and
- submitting late F3.6s to the Human Resources Office.

Three (3) employees’ current leave balances need to be adjusted.

We further recalculated the employees’ State and FLSA compensatory time from September 2001 through August 2002. We then compared our computation to September 2002 F3.6s and noted no exception.

**RECOMMENDATION**

We recommend the Human Resources Office adjust the employees’ current leave balances to reflect hours taken that have not been deducted and/or accounted during fiscal year 2002, for those employees examined during the audit.

**MANAGEMENT’S RESPONSE**
Management agrees as this is the current practice within the Human Resources Office.

**INADEQUATE PHYSICAL MAINTENANCE OF RECORDS**

Some supervisors do not have the employees’ Request for Overtime and Leave Forms (F3.6A) in their department files.

Management informed Internal Audit that each individual department retains a copy of their employees’ F3.6As and submits the original to the Office of the President. The office will then compare the F3.6As to the F3.6 to ensure accuracy and completeness. If the office has any discrepancies or is unable to compare the F3.6As to the F3.6, then the office will request for additional documents or resubmit the F3.6 for correction to the individual department.

Some departments did not comply with the following Human Resources Policies and Procedures Section 6.3:

- (1) states Lamar Institute of Technology is under the jurisdiction of Texas Government Code and must comply with all the rules and regulations, including the requirement to maintain attendance and leave records on each employee;
- (2) states time and attendance records must be maintained on each faculty and staff member by using the Request for Overtime and Leave Form (F3.6A). This record will be retained in the individual department and used to validate the F3.6; and
- (4) states all leave records must be retained for official audit purposes. The Institute retention schedule requires time records be maintained for the current fiscal year plus the previous three fiscal years.

*Internal Audit reviewed nine (9) out of seventy (70) employees listed on the Vacation and Sick Leave Update Report for July 2002. We requested and received all nine (9) employees’ leave records from their supervisor. We then compared the F3.6As to the F3.6 and noted the following exceptions:*

- 11% had no F3.6As for requested leave and
- 11% had submitted the wrong month.

We further examined the F3.6As for completeness and noted the following exceptions:

- no approval or disapproval for requested leave;
- no explanation for earned overtime;
- no signature and date; and
- no explanation for sick leave.
Supervisors should review and compare the F3.6 to the F3.6As to ensure only approved hours earned and/or requested have been reported. This will help ensure the employees’ leave balances are current and the employees have accurately earned and/or taken any leave time.

**RECOMMENDATION**

We recommend the supervisors sign, date, approve or disapprove requested leave, and provide an explanation for overtime on the Request for Overtime and Leave Form (F3.6A) to ensure accuracy and completeness.

We recommend departments maintain attendance and leave records on each employee by using the Request for Overtime and Leave Form (F3.6A) as stated in the Human Resources Policies and Procedures to ensure consistency and accuracy throughout the Institute.

**MANAGEMENT'S RESPONSE**

Management agrees to all recommendations.

**CONSISTENT IN TAKING LEAVE TO ATTEND CLASSES**

The employee, who attended classes for more than three (3) hours per week during the work day, did not have to report vacation leave and/or compensatory time taken on her F3.6s.

The Senior Human Resources Specialist informed Internal Audit that an employee at Lamar Institute of Technology had enrolled for more than one (1) course during the work day. We obtained the employee’s class schedules for Spring 2001, Fall 2001, and Spring 2002 and F3.6s.

The employee is an instructor and accrues only sick leave. The employee had to schedule her classes around her work and office hours. We noted no exception.

**RECOMMENDATION**

There is no recommendation for this finding.