



EXECUTIVE SUMMARY
Government-Wide Payroll-Related Demand Runs and Special Payments
Performance Audit
OPA Report No. 12-05, December 2012

Our performance audit of the Department of Administration's (DOA) processing of payroll-related demand runs and special payments found that while the payments were generally authorized and correctly calculated, they were not efficiently processed. Of the 54 tested transactions from fiscal year (FY) 2009 to 2011, we found only two payments lacked proper authorizations and two payments were incorrectly calculated. On the other hand, we found several indicators that processing payroll-related demand runs and special payments could be more efficient.

We found that demand runs and special payments were processed any day of the week, and occurred on an average of 11 work days or 49% per month in FY 2011. Processing demand runs and special payments required DOA payroll staff to spend additional time processing these payments, rather than analyzing payroll transactions. In most cases, these payments could have been processed together with the employees' biweekly payroll, but were not.

In addition to the average of 3,640 regular biweekly payroll checks processed for line entities within the Government of Guam (GovGuam), DOA routinely processes other types of payroll transactions known as demand runs and special payments. Demand runs are retroactive payments (i.e., salary increments, overtime, night differential, hazardous pay, etc.) that are processed based on the availability of cash within the General Fund. Special payments are requested by employees and require the approval of the agency head and Director of DOA for prepayments of regular salary, annual leave, or sick leave.

We also concluded that the payroll filing system for demand runs and special payments can be improved and that the 98 separate pay codes within the payroll system are susceptible to payment errors.

Processing Can be Done More Efficiently

Demand runs and special payments should occur on an emergency basis, and not on a regular basis. Instead, we saw an increased use of the demand runs and special payments process, going from 7,946 payments (\$5.7M) in FY 2009, to 8,217 payments (\$6.2M) in FY 2010, to 9,741 payments (\$7.5M) in FY 2011. Given that demand runs and special payments represented 17% of the regular biweekly payroll payments processed, these payments created an unnecessary burden for DOA. Although the Chief Payroll Officer indicated that demand runs and special payments are processed on non-payday Fridays, there is no written policy indicating when they should be processed. On the contrary, demand runs were processed any day of the week, including payroll weeks. From an efficiency perspective, demand run and special payments should be limited to being processed once a week, preferably with the biweekly payroll or alternatively once a week on the non-payroll weeks.

According to the Chief Payroll Officer, employees receive paper checks for demand runs and special payments and are not given the option for direct deposit. These payments should be included in the employees' biweekly payroll to avoid the additional printing of paper checks. As noted in OPA Report No. 10-01, *Payroll Efficiency for Employee Pay and Voluntary Deductions*, direct deposits are less expensive and more efficient than issuing paper paychecks.

The top three agencies with the largest and most frequent issuance of demand runs and special payments were the Guam Police Department (GPD), Department of Corrections (DOC), and Customs and Quarantine Agency (CQA), accounting for 14,462 payments totaling \$8.6M for the three years. Additionally, 46 CQA employees routinely received demand runs, averaging 24 checks per year or almost one demand run pay check every other week during the year.

To determine other practices in other GovGuam agencies, we contacted the Guam Waterworks Authority (GWA) and Guam Community College (GCC), and found that demand runs and special payments are not processed regularly due to the additional administrative burden placed on their payroll staff. Both GWA and GCC require the approval by the agency's head prior to processing the special payments. Otherwise, the payments would be processed with the employees' biweekly payroll through direct deposits.

Payments Generally Authorized and Correctly Calculated

Of the 54 transactions reviewed, totaling \$387,539, we found only four payments totaling \$30,475 that were either lacking payment authorization or were erroneously calculated. Specifically, two payments totaling \$3,721 lacked proper authorization and two payments were incorrectly calculated for a questioned cost of \$161. Of the two payments lacking proper authorization, one payment for \$1,615 lacked supporting timesheets and the other payment for \$2,105 lacked the Director of Administration's authorizing signature on the special pay request form.

Filing System Can Be Improved

We found that records for demand runs and special payments at DOA Payroll were not always maintained in the same folder, which required some time for supporting documents to be retrieved. As an example, personnel action forms would cite a specific document that was not included in the folder as evidence for payment. Upon our request, these documents were retrieved from DOA's Human Resources Division or the Office of the Attorney General. At a minimum, all supporting documents related to the authorized payments should be kept in the same folder within the Payroll Section.

Multiple Pay Codes Susceptible to Errors

We identified 98 different pay codes in GovGuam's financial management system (AS400). The Chief Payroll Officer explained that the Guam Legislature created varying pay codes specific to certain types of GovGuam employees, i.e. nurses, law enforcement, etc. With a multitude of pay codes, there is a greater potential that the wrong pay code may be used. There is a risk that employees may receive payments they are not entitled to.

Recommendations

We made three recommendations to the Director of Administration: (1) develop a policy to limit the number of routinely processed demand runs to once a week on non-payroll weeks or as part of the biweekly payroll run; (2) create a task force to simplify, consolidate, and review the necessity of having 98 pay codes in the AS400; and (3) develop a filing system to ensure that all supporting documents are maintained within the Payroll Section.



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