



**New Jersey State Legislature
Office of Legislative Services
Office of the State Auditor**

**Motor Vehicle Commission
Payroll Expenditures**

July 1, 2010 to June 30, 2013

**Stephen M. Eells
State Auditor**

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New Jersey State Legislature

OFFICE OF LEGISLATIVE SERVICES

OFFICE OF THE STATE AUDITOR
125 SOUTH WARREN STREET
PO BOX 067
TRENTON NJ 08625-0067

ALBERT PORRONI
Executive Director
(609) 847-3901

OFFICE OF THE STATE AUDITOR
(609) 847-3470
FAX (609) 633-0834

STEPHEN M. EELLS
State Auditor

GREGORY PICA
Assistant State Auditor

JOHN J. TERMYNIA
Assistant State Auditor

The Honorable Chris Christie
Governor of New Jersey

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Mr. Albert Porroni
Executive Director
Office of Legislative Services

Enclosed is our report on the audit of the Motor Vehicle Commission, Payroll Expenditures for the period of July 1, 2010 to June 30, 2013. If you would like a personal briefing, please call me at (609) 847-3470.

A handwritten signature in black ink, appearing to read "Stephen M. Eells".

Stephen M. Eells
State Auditor
September 25, 2013

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Scope

We have completed an audit of the Motor Vehicle Commission (MVC), Payroll Expenditures for the period July 1, 2010 to June 30, 2013. Our audit included MVC payroll activities accounted for in the state's General Fund. Payroll expenditures of the agency for fiscal years 2011, 2012, and 2013 were \$161 million, \$156 million, and \$148 million, respectively. The MVC employs approximately 2,200 people. The primary responsibility of the MVC is to promote motor vehicle safety for New Jersey citizens by delivering secure, effective, and professional motor vehicle services.

Objectives

The objectives of our audit were to determine whether payroll transactions were related to the agency's programs, were reasonable, and were recorded properly in the accounting systems.

This audit was conducted pursuant to the State Auditor's responsibilities as set forth in Article VII, Section I, Paragraph 6 of the State Constitution and Title 52 of the New Jersey Statutes.

Methodology

Our audit was conducted in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States.

In preparation for our testing, we studied legislation, the administrative code, circular letters promulgated by the Department of the Treasury, and policies of the Department of Transportation adopted by the MVC. Provisions we considered significant were documented and compliance with those requirements was verified by interview, observation, and through our sample testing of payroll transactions. We also read the budget messages, reviewed financial trends, and interviewed agency personnel to obtain an understanding of the programs and the internal controls.

A nonstatistical sampling approach was used. Our samples of financial transactions were designed to provide conclusions on our audit objectives, as well as internal controls and compliance. Sample populations were sorted and transactions were judgmentally selected for testing.

Conclusions

We found the payroll transactions were related to the agency's programs, were reasonable, and were recorded properly in the accounting systems. In making these determinations, we have identified opportunities to enhance debt collections, potential savings in overtime expenditures, and weaknesses in internal controls meriting management's attention.

Overpaid Payroll Debt Accounts

The MVC should resubmit overpaid payroll debt accounts with outstanding balances to the Department of the Treasury, Division of Revenue and Enterprise Services.

The Motor Vehicle Commission (MVC) has not adequately managed the collection of unpaid amounts associated with overdrawn leave benefit time to ensure all efforts are expended to maximize recoveries. It has not properly submitted its debt to the Department of the Treasury, Division of Revenue and Enterprise Services (DORES) for further collection efforts after a 90-day period as required by Treasury Circular Letter 13-11-OMB (preceded by Circular Letters 11-20-OMB, 06-30-OMB, and 03-06-OMB). The MVC has over 200 former employee overpaid payroll debt accounts with outstanding balances totaling \$148,000 which are unrecorded at the DORES. The MVC also has not maintained a complete internal database as required to effectively manage their overpaid payroll debt, which is used to submit to DORES if collection is unsuccessful.

Twice a year, the MVC Human Resources Division sent a manual record of its overpaid payroll debts to the DORES to be keyed into the Set-Off Individual Liability (SOIL) Program system. The SOIL program intercepts personal NJ Gross Income Tax refunds and Homestead Rebates from taxpayers who have outstanding debts. The lack of a user interface in the SOIL system necessitated annual submissions of all outstanding debts, including those submitted in previous years, because previous submissions are purged from the system. Due to the lack of clarity in the circular letters, the MVC was unaware of the need to manually resubmit prior year outstanding debts to the DORES. The MVC's failure to maintain the internal database complicated the issue further; had it maintained this database, the information forwarded to the DORES would have been complete and prior year outstanding balances would have been captured. Debts that were manually keyed on behalf of the MVC and not collected in full in the first year continue to be outstanding.

Currently, the DORES utilizes the Revenue Delinquency Invoice (RDI) system which accepts non-tax debts and has been available to the MVC since April 2011. This system tracks account payments and balances and communicates with all interested parties. Debts entered to this system remain in the system and annual resubmissions are not necessary.

Recommendation

The MVC Human Resources Division should continue to submit overpaid payroll debt accounts which have an outstanding balance to the DORES through the RDI system. Henceforth, the MVC should maintain their internal database and ensure they are in compliance with the requirements of the circular letter.

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Overtime

Incidental Overtime

The MVC should not pay cash overtime for incidental overtime worked.

MVC employees received cash compensation for incidental overtime instead of compensatory time. We noted 7,910 instances where 693 employees charged less than fifteen minutes of overtime on a single day and received a cash payment for the time worked. These 1,150 hours in total should have been credited to the employee as compensatory time off on an hour-for-hour basis. However, the employees received time-and-a-half cash compensation, resulting in a cumulative overpayment of \$36,500.

Both the MVC union contract and Department of Transportation (DOT) Policy No. 508 define incidental overtime as “a period of assigned non-scheduled overtime worked of less than 15 minutes”. The union contract states that records of incidental overtime shall be kept and accumulated at straight time and may be scheduled as compensatory time.

Overtime While on Leave Time

The MVC should not pay overtime when leave time generates the overtime.

The MVC paid overtime to employees who charged leave time on the same day, in violation of their policy. Our analysis determined 611 employees were paid overtime and charged leave time on the same day 2,767 times. In 212 of these instances, the employee charged a full day of leave time and was still paid overtime on that same day. The MVC paid \$28,226 that could have been avoided if they had enforced their overtime policy.

NJ DOT Policy No. 508 states if an employee accepts an overtime assignment while on vacation, administrative leave, compensatory time off, or paid leave bank, their leave banks will be restored and they will be paid straight time for their normal work day and the emergency overtime rate for time in excess of their normal work day. Employees who call out sick for their own personal illness are not eligible for overtime on that day. Employees who are pre-approved for scheduled sick time for doctor's appointments or therapy may earn overtime.

We also analyzed the occurrences when employees earned overtime on a day when pre-approved sick time existed, even though this is allowed by the overtime policy. We found \$15,400 in overtime payments on 319 days where pre-approved sick time caused the employee to earn overtime on the same day. On these days, the overtime could have been netted against the actual worked time and saved the commission \$5,100.

Overtime Paid to Exempt Employees

The MVC should not pay overtime to exempt employees.

The MVC paid \$19,500 in overtime to three exempt employees without required written authorization. NJ DOT Policy No. 508 states that no overtime shall be paid to employees with work week codes 3E and 4E without written approval from the appropriate assistant commissioner and the Director, Division of Budget.

Although authorized supervisors approved the timesheets with incidental overtime, overtime on days with leave taken, and overtime to exempt employees, it is the Human Resources Division's responsibility to ensure that the respective pay is correct and in compliance with policies.

Recommendation

The Human Resources Division should ensure that all timesheets and respective pay generated are in compliance with applicable policies. The MVC should consider revising the overtime policy for pre-approved sick leave to pay overtime only when the normal work time has been exceeded.

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Cross-Approved Timesheets

The MVC should review timesheets of employees who approve timesheets for one another.

The eCATS timekeeping system allows employees to select another employee to be an authorized supervisor who can approve their timesheets. Currently, there is no monitoring function performed by the Human Resources Division that could identify potential improper transactions. We noted eight pairs of employees approved one another's time on more than 1,600 days, which included 251 hours of overtime. Though no improprieties were found and 97 percent of the overtime approved was scheduled overtime, the lack of system controls or independent verification puts the MVC at risk of processing improper payroll transactions.

Recommendation

The MVC should monitor the system for employees who are approving one another's timesheets and periodically review these timesheets.

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Timely Removal from Payroll

The separation policy should include a firm time frame for removing separated employees from active payroll records.

Our audit found 126 of 354 separated employees remained on the active payroll for two or more pay periods following their separation. However, we did not find any improper payments to separated employees. One separated employee remained on MVC's payroll records for 555 days before being removed. Although the MVC has a written policy regarding employee separation, the policy does not include a time frame to process the required Separation Request. One two-week pay period after separation is an acceptable time frame for removal from payroll. There is an increased risk that inappropriate or erroneous payroll transactions may be processed when separated employees are not removed from active payroll records in a timely manner.

Recommendation

We recommend the MVC enhance their separation policy to include a specific timeframe for removal of separated employees from payroll records, thereby decreasing the risk of inappropriate or erroneous payroll transactions.



Medical Leave Documentation

The Human Resources Division should obtain medical documentation when required.

Sick Leave

The Human Resources Division did not obtain required sick leave documentation from employees. The lack of proper documentation inhibits the Human Resources Division from determining if employees are misusing or abusing their sick leave benefits. The DOT Policy and Procedure for Benefit Time and Leaves states an employee must submit acceptable medical documentation from a licensed medical practitioner if he has been absent on sick leave for five or more consecutive work days with or without pay, or has been absent on sick leave with or without pay for an aggregate of more than 15 days in a 12-month period. Our sample of 25 employees who took sick leave for five or more consecutive days found eight employees did not have acceptable medical documentation in their personnel medical file. A separate sample of 25 employees with more than 15 sick days in a 12-month period found 10 employees did not have acceptable medical documentation in their personnel medical file.

Medical Leave of Absence

The MVC Human Resources Division did not obtain the required documentation from employees who took a medical leave of absence. The lack of documentation and proper

approvals increases the risk employees are abusing the leave of absence policy. The DOT Policy and Procedure for Benefit Time and Leaves states a leave of absence is an authorized absence from work for ten or more consecutive workdays with or without pay. All medical leaves of absence must be approved by the Leave Unit within the Human Resources Division. An employee who requests a medical leave, with or without pay, must submit a proper leave form and acceptable medical documentation to the Human Resources Division stating the reason and duration for requested leave. The Human Resources Division uses federal form WH-380 to document a medical leave of absence which is required to be kept on file for three years. We sampled 25 employees who took a medical leave of absence and found 10 did not have the required documentation to verify the reason for their leave and 9 did not have a WH-380 form on file.

Recommendation

The Human Resources Division should obtain the required documentation from employees who are sick or on a medical leave of absence to prevent the potential misuse of sick leave benefits.

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Family and Medical Leave Act

The Human Resources Division should obtain all required documentation from employees on a Family and Medical Leave Act leave of absence.

The MVC Human Resources Division has not obtained all required documentation from employees who took a leave of absence protected by the federal Family and Medical Leave Act (FMLA). Nearly 1,000 employees charged over 306,000 hours from 2010 to 2012 to the FMLA program. The FMLA program entitles eligible employees to take unpaid, job-protected leave for specified family and medical reasons with continuation of group health insurance coverage under the same terms and conditions as if the employee had not taken leave.

In order to qualify for an FMLA leave of absence, an employee must have been employed for at least 12 months and must have worked at least 1,250 hours in the 12 months preceding a leave. The federal program requires that the 1,250 hours be actual worked hours and should not include paid or unpaid time off. New Jersey, as an employer, has opted to apply more liberal parameters for qualification purposes and permits its state workers to qualify based on 1,250 or more paid hours, which may include paid time off. If an employee qualifies, specific documentation must be completed and submitted to the Human Resources Division. The division requires the following documents to be on file for oversight purposes: federal form WH-380 specifying their condition and length of leave which must be signed by a doctor; an agency approval letter; screen prints from the eCATS timekeeping system indicating leave time taken as FMLA; and appropriate documentation authorizing the return of the employee to work.

Proper and complete documentation of family leave was lacking from employee medical files. We tested 14 employees who had a total of 56 FMLA leaves of absence and found 21 instances were missing WH-380 forms, 13 were missing agency approval letters, 11 were missing eCATS data, and 40 had no appropriate documentation stating the employee may return to work.

The Human Resources Division does not consistently obtain these required leave documents. The lack of proper documentation increases the risk the program is being misused.

Recommendation

The MVC Human Resources Division should obtain and review all required FMLA documentation.

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New Jersey Motor Vehicle Commission

P.O. Box 160
Trenton, New Jersey 08666-0160

STATE OF NEW JERSEY

Chris Christie
Governor

Kim Guadagno
Lt. Governor

Raymond P. Martinez
Chairman and Chief Administrator

September 23, 2013

Stephen M. Eells
State Auditor
Office of the State Auditor
P.O. Box 067
Trenton, New Jersey 08625-0067

Dear Mr. Eells:

This correspondence is in response to your September 4, 2013 draft audit report of the New Jersey Motor Vehicle Commission (MVC) for payroll expenditures. This is the second in a series of audits being performed by your office.

Below you will find responses to the findings listed in the draft audit report for payroll expenditures which covers the period of July 1, 2010 to June 30, 2013.

Subject: Overpaid Payroll Debt Accounts to the Department

Finding: The MVC should resubmit overpaid payroll debt accounts with outstanding balances to the Department of Treasury, Division of Revenue and Enterprise Services (DORES).

Management Response: The MVC has initiated a more proactive process and steps to identify overpaid payroll debt accounts by instituting its own internal database. The MVC was unaware of the need to manually resubmit prior year outstanding debts to the DORES. Twice a year, the MVC did submit overpaid payroll debts to the DORES to be keyed into the Set-Off Individual Liability (SOIL) Program however, was unaware that annual submissions of all outstanding prior year debts needed to be manually input into the system due to the fact that prior year submissions are purged by DORES. Coupled with this, within the last three years, there have been three different management changes in the MVC Payroll & Leaves Unit and the supervisor in charge passed away suddenly in 2013.

Based on the recommendation from your office and as directed by Treasury, the MVC is maintaining its own internal database as well as submitting overpaid payroll debt accounts which have an outstanding balance to the DORES through the Revenue Delinquency Invoice (RDI) system. This system tracks account payments and balance and does not require annual resubmissions.

***Subject: Overtime: Incidental Overtime
Overtime While on Leave Time
Overtime Paid to Exempt Employees***

Findings: The MVC should not pay cash overtime for incidental overtime work.
The MVC should not pay overtime when leave time generates the overtime.
The MVC should not pay overtime to exempt employees.

Management Response: The MVC has duly noted the issues identified in the report and will implement changes accordingly. The MVC does not have its own policy regarding overtime and has operated under the policy established by New Jersey Department of Transportation (NJDOT). The MVC will be establishing its own Overtime Policy to reflect the operational needs of the Commission as well as adhering to existing union contracts. Furthermore, the MVC will work with the Office of Information Technology (OIT) and the Civil Service Commission (CSC) to enhance the current eCATS time keeping system to disallow overtime less than fifteen (15) minutes. The current timekeeping system does not currently support that functionality.

The MVC monitors its overtime costs by pay-period and ensures that any overtime approved for the divisions is consistent with their budget. Should a division need to exceed their budget, they are required to provide a Supplemental Expenditure Authorization (SEA) which is approved by the Director of Financial Management as well as the appropriate Deputy Administrator for that division.

Furthermore, the MVC is instituting training for all Personnel Coordinators within the Commission to ensure that the overtime policy is enforced by all divisions.

Subject: Cross-Approved Timesheets

Finding: The MVC should review timesheets of employees who approve timesheets for one another.

Management Response: The MVC has duly noted the issue identified by your office and will establish an audit procedure to assure that the proper protocol is being followed. All Personnel Coordinators will be trained to ensure adherence to the process. Furthermore, the MVC will explore potential changes to the eCATS timekeeping system so that controls can be implemented to avoid any improprieties.

Subject: Timely Removal from Payroll

Finding: The separation policy should include a firm timeframe for removing separated employees from active payroll records.

Management Response: The MVC has reviewed its policy regarding employee separation and believes that the reason that the policy does not have a firm timeframe is due to the fact that employees may be owed a day's pay during the time period of separation or employees facing criminal charges are placed on indefinite leave pending the outcome of those charges. Some of the separations are retroactive so that it appears that there was a delay. The MVC is instituting internal

controls to ensure that the Commission follows specific procedures in removing separated employees from the active payroll records. All employees within the unit will be trained in these procedures.

Subject: Medical Leave Documentation

Finding: The Human Resources Division should obtain medical documentation when required.

Management Response: The MVC is in the process of instituting its own policies and procedures for benefit and medical leave time which will ensure that the proper documentation is received and records are maintained in compliance with said policy. Staff within the Division of Human Resources as well as all Personnel Coordinators will be trained in all rules and regulations which will ensure the efficient and accurate processing of all medical leave requests as well as maintaining the proper documentation.

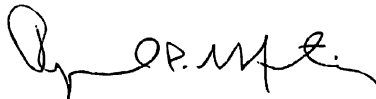
Subject: Family and Medical Leave Act

Finding: The Human Resources Division should obtain all required documentation from employees on a Family and Medical Leave Act leave of absence.

Management Response: The MVC concurs with this finding and will adhere to all of the requirements of the federal Family and Medical Leave Act (FMLA) as well as New Jersey's parameters. All staff within the Division of Human Resources will be trained in these procedures to ensure that proper documentation is submitted by each employee and maintained by the division.

Thank you for the opportunity to comment on the audit findings. It was a pleasure to work with the auditors you provided and we appreciate the recommendations noted.

Sincerely,

A handwritten signature in black ink, appearing to read "R. P. Martinez", with a stylized flourish at the end.

Raymond P. Martinez
Chair and Chief Administrator

cc: Katharine A. Tasch, Acting Deputy Chief Administrator
Richard J. Miller, Deputy Administrator of Finance & Administration
Selika Gore, Deputy Administrator of Operations
Carol-Ann Hollows, Director of Financial Management

RJM/CH/rmg