



STATE OF HAWAII
DEPARTMENT OF ACCOUNTING AND GENERAL SERVICES
P.O. BOX 119, HONOLULU, HAWAII 96810-0119

WRITTEN TESTIMONY
OF
CURT T. OTAGURO, COMPTROLLER
DEPARTMENT OF ACCOUNTING AND GENERAL SERVICES
TO THE
HOUSE COMMITTEE ON LABOR AND PUBLIC EMPLOYMENT
MARCH 14, 2019, 9:00 A.M.
CONFERENCE ROOM 309, STATE CAPITOL

S.B. 503, S.D. 2
RELATING TO SALARY OVERPAYMENTS.

Chair Johanson, Vice Chair Eli and Members of the Committee, thank you for the opportunity to testify on S.B. 503, S.D. 2.

The Department of Accounting and General Services (DAGS) supports the intent of this measure and would like to offer the following comments.

Salary overpayments have been a recurring issue that has plagued the State payroll process over the years, primarily due to the manual processing established to handle employee leaves and untimely submission of leave notices into the payroll system. The overpayments occur because of a miscommunication between the manual leave process and payroll processing system which is processing payroll amounts based on known vacation and leave balances that have been entered into the system.

Typically, leave requests are being approved at the department level without having an automated method to update the payroll system that validates what leave balances employees are entitled to. There are other situations where employees may call in sick and not have sufficient sick leave available. Additionally, process delays to authorize employees qualified to get worker's compensation also adds to this recurring issue.

DAGS is evaluating the feasibility of modernizing its present leave accounting system for all departments. Leave records are currently managed at the department level and based on several factors - transaction volume, access to related systems, and enhanced capabilities of a new leave accounting system. An enterprise-wide assessment is required to determine feasibility and scope of work to reduce salary overpayments for the State.

In reference to Section 78, the establishment of a manual accounting system to record the wages or salary and leave of any employee who exhausts the employee's sick or vacation leave, there are a handful of agencies that have already implemented leave systems and this requirement could place undue administrative burden. Other departments who do not have access to a leave accounting system may be using a leave tracking system within their human resources system of record or may already be tracking leave manually for all record types, not just those who exhaust available balances.

To build upon the payroll system modernization recently completed by DAGS, an enterprise-wide time and leave management platform may further address leave balance issues through the integration of key data elements – time worked, leave and salary compensation to address or prevent overpayments, where possible. This will however, require that departments engage in opportunities to collaborate and compromise with their individual department processes and procedures. Additionally, departments and agencies need to be committed to interface any leave systems built previously with the new time and leave management module. To benefit the overall desire to reduce salary overpayments State-wide, every State department and agency must be agreeable to modify their respective business processes that facilitate the entry of leave requested, used and updated.

The implementation of phase two of the payroll system modernization will continue to automate and streamline once manual processes, integrate disparate systems across the State departments and agencies and enable everyone to be on one standard. This comprehensive strategy and approach will offer options to assist State departments and agencies the opportunity to lower and/or strengthen their prevention of payroll overpayments.

For these reasons, we are requesting that the proposed language under Section 78 be deferred to allow DAGS' to work with departments to evaluate the use of an enterprise-wide platform for time and leave management and conduct a feasibility study to determine the effectiveness to achieve the objective of reducing State liability associated with salary overpayments.

Thank you for the opportunity to provide comments on this matter.



STATE OF HAWAII
DEPARTMENT OF EDUCATION
P.O. BOX 2360
HONOLULU, HAWAII 96804

Date: 03/14/2019
Time: 09:00 AM
Location: 309
Committee: House Labor & Public
Employment

Department: Education

Person Testifying: Dr. Christina M. Kishimoto, Superintendent of Education

Title of Bill: SB 0503, SD2 RELATING TO SALARY OVERPAYMENTS.

Purpose of Bill: Requires each department to deduct the department's total salary and wage overpayment from the department's budget request for the following fiscal biennium. Requires each department, except the University of Hawaii, to place employees who exhaust their sick or vacation leave on a manual accounting system. Removes the 2year statute of limitations on determination and notice to an employee of salary and wage overpayment. Effective 7/1/2050. (SD2)

Department's Position:

The Department of Education (Department) offers the following comments on SB 503, SD2, with concerns:

Section 2: Requirement that each department deduct the department's total salary overpayment from the department's budget request for the following fiscal biennium. The Department is working with schools and offices through training and monitoring to regularly update employee leave balances to try to minimize overpayments that result from insufficient leaves. The Department has also taken steps with the unions to transition from groups of employees being provided leave credits up front to earned leave. Mandating this requirement would reduce funding and the resources necessary to limit the occurrence and collection of salary overpayments.

Section 3: Requirement that employees who exhaust their sick leave be placed on a manual accounting system. The Department currently has a process in place by which Payroll converts salaried employees from predicted pay to pay based on Actual Time Worked in compliance with Sections 78-13 (b) and (c), Hawaii Revised Statutes (HRS) for employees who have been working for the State for at least six months and 1) have no paid leave accumulated, and have an existing salary overpayment balance, or 2) had at least two incidents of leave which results in salary overpayment within the past six months.

The Department makes every effort to consistently be in compliance with Sections 78-13 (b) and (c), HRS. However, the Department's manual processes cause additional burden on timekeepers at each school/office to properly manage and provide time sheets by the payroll deadline and on the Department's payroll unit to identify and track individuals for conversion and to timely and properly process payroll.

The Department has a Time & Attendance system that records employee leave transactions and balances, and provides a means to identify employees who have exhausted their sick and vacation balances. The system was last updated seven years ago and is reliant on manual processes for employees submitting paper leave documents, the school or office following up to ensure leave papers are submitted and manually entering the leave into this system.

The Department continues to closely monitor the salary overpayment balances, seek ways to improve the manual processes, hold our employees accountable, and support the staff in the process through the recently created Leave Management Unit in Accounting Operations.

The Hawaii State Department of Education seeks to advance the goals of the Strategic Plan which is focused on student success, staff success, and successful systems of support. This is achieved through targeted work around three impact strategies: school design, student voice, and teacher collaboration. Detailed information is available at www.hawaiipublicschools.org.

DAVID Y. IGE
GOVERNOR



LATE

RODERICK K. BECKER
DIRECTOR

ROBERT YU
DEPUTY DIRECTOR

EMPLOYEES' RETIREMENT SYSTEM
HAWAII EMPLOYER-UNION HEALTH BENEFITS TRUST FUND
OFFICE OF THE PUBLIC DEFENDER

**STATE OF HAWAII
DEPARTMENT OF BUDGET AND FINANCE**

P.O. BOX 150
HONOLULU, HAWAII 96810-0150

ADMINISTRATIVE AND RESEARCH OFFICE
BUDGET, PROGRAM PLANNING AND
MANAGEMENT DIVISION
FINANCIAL ADMINISTRATION DIVISION
OFFICE OF FEDERAL AWARDS MANAGEMENT (OFAM)

**TESTIMONY BY RODERICK K. BECKER
DIRECTOR, DEPARTMENT OF BUDGET AND FINANCE
TO THE HOUSE COMMITTEE ON LABOR AND PUBLIC EMPLOYMENT
ON
SENATE BILL NO. 503, S.D. 2**

**March 14, 2019
9:00 a.m.
Room 309**

RELATING TO SALARY OVERPAYMENTS

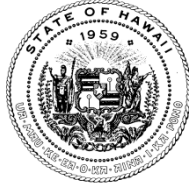
Senate Bill No. 503, S.D. 2, requires each department to deduct the department's outstanding wage or salary overpayment balance at the end of a fiscal biennium from the department's budget request for the following fiscal biennium. The bill also requires that employees (except for University of Hawaii employees) who exhaust their sick leave be placed on a manual accounting system, and removes the two-year statute of limitations on determination and notice to employee of salary and wage overpayment.

The Department of Budget and Finance offers comments regarding the deduction of wage or salary overpayment amounts from department budget requests. We are concerned that this requirement may encourage departments to: 1) delay making an overpayment determination until after a fiscal biennium ends to avoid or delay being penalized, or 2) request lower priority budget requests to offset an overpayment deduction.

Broadly applying a budget request deduction to a department without regard to the program and means of financing, which may have incurred the overpayments, may inadvertently penalize programs that have not had such issues. Given that it is unlikely

that a department's budget request would be approved in its entirety, it is unclear how the deduction would be applied to the Executive budget request. It is also unclear whether such deductions are intended to be continued in future years or are one-time deductions.

Thank you for your consideration of our comments.



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STATE OF HAWAII
DEPARTMENT OF TRANSPORTATION
869 PUNCHBOWL STREET
HONOLULU, HAWAII 96813-5097

March 14, 2019
9:00 a.m.
State Capitol, Room 309

**S.B. 503, S.D. 2
RELATING TO SALARY OVERPAYMENTS.**

House Committee on Labor and Public Employment

The Department of Transportation **supports the intent** of this bill.

While DOT agrees having greater accountability to correct overpaid salaries to reduce overpayment waste and consequently support the Act's purposes #2 through #4 and the proposed additions to Sections 3 and 4 of Chapter 37, Hawaii Revised Statutes, the DOT is concerned with the bill's proposed amendments in Section 2 requiring the departments to deduct the department's total salary overpayment from the DOT's budget request for the following fiscal biennium.

The State has a process to ensure employees who were overpaid to make installment payments to refund the overpayment. We are concerned with the proposed amendment requiring the department's total salary overpayment amount to be deducted from the DOT's budget request for the following fiscal biennium. Instead, the DOT should be able to collect the total sum of the overpayment from the employees and only any remaining overpayment balance should be deducted from its budget request for the following fiscal biennium.

Thank you for the opportunity to provide testimony.