

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

TESTIMONY
OF
CURT T. OTAGURO, COMPTROLLER
DEPARTMENT OF ACCOUNTING AND GENERAL SERVICES
TO THE
SENATE COMMITTEE ON GOVERNMENT OPERATIONS
JANUARY 31, 2019
2:45 P.M.
CONFERENCE ROOM 225

S.B. 503
RELATING TO SALARY OVERPAYMENTS.

Chair Thielen, Vice Chair Inouye and members of the Committees, thank you for the opportunity to testify on S.B. 503.

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

Currently approximately half of all salary overpayments are the result of employees calling in sick without having sufficient sick leave accumulated. Due to departmental differences in leave accounting systems and processes, an assessment is required to determine feasibility and scope of work. Until a new leave accounting system is implemented, up-to-date leave records need to be manually maintained for employees that have minimal leave hours accumulated so that the employee's pay can be timely adjusted. DAGS is in consultation for an enterprise-wide platform to interface with the Oracle PeopleSoft program that was implemented for the modernization of the payroll. This will help alleviate the manual tracking of leave balances and to provide real time access to assist departments in preventing salary overpayments.

Thank you for the opportunity to testify on this matter.

DAVID Y. IGE
GOVERNOR



THOMAS WILLIAMS
EXECUTIVE DIRECTOR

KANOE MARGOL
DEPUTY EXECUTIVE DIRECTOR

**STATE OF HAWAII
EMPLOYEES' RETIREMENT SYSTEM**

TESTIMONY BY THOMAS WILLIAMS
EXECUTIVE DIRECTOR, EMPLOYEES' RETIREMENT SYSTEM
STATE OF HAWAII

TO THE SENATE COMMITTEE ON GOVERNMENT OPERATIONS
ON
SENATE BILL NO. 503

**January 31, 2019
2:45 P.M.
Conference Room 225**

RELATING TO SALARY OVERPAYMENTS

Chair Thielen, Vice Chair Inouye and Members of the Committee,

The Employees' Retirement System (ERS) has serious concerns about the likely impact of SB503 on its processes and operations. S.B. 503 proposes to garnish the retirement pension of a former employee who was overpaid by a State department or agency. This proposal would require the ERS, based on a request from a State department's or agency's disbursing officer, to deduct an amount from the former employee's monthly pension and distribute these garnished deductions to the respective State department or agency until the former employee's indebtedness is satisfied. The ERS views the untenable administrative burden of such requirements as unsustainable with current resources and is further troubled about possible unintended consequences related its tax qualification.

As noted in S.B. 503, there are "many departments and agencies" of the State for whom overpaid salaries is an ongoing issue. While the total number of individuals affected each month is not represented, it could easily reach into the hundreds. The proposal states that these



Employees' Retirement System
of the State of Hawaii

overpayments exceeded \$415,000 each month for the period from November 2016 through October 2017 (\$4.9M annually).

Although the ERS Staff and Board of Trustees appreciate the intent of this proposal to impose greater accountability on State departments and agencies to recover overpaid salaries, we have serious concerns about proposing the garnishment of retirement pensions as a method of correction as it shifts the responsibility for the overpayment and its recovery from the relevant department or agency and concentrates it, intentionally or otherwise, within the ERS.

As of January 31, 2019, the ERS administers a total of only 54 deductions under section 88-92, HRS, which allows for specific cases of garnishment from ERS pensions subject to court order. Of the 54 cases, 46 are child-support payments and 8 are Internal Revenue Service (IRS) levies from pension payments, which are federally mandated. These deductions are consolidated and paid directly to either the Child Support Enforcement Agency, the Circuit Court or to the IRS.

While the recovery of overpaid salaries is an important issue for State government, inserting the ERS into what are often disputed overpayments and salary reporting errors (especially long after the errors may be identified) only adds to the ERS's resulting administrative responsibilities and overpaid pension payments caused by these errors. Also, S.B. 503 is unclear about the process by which an overpayment would be legitimately vetted, and the ERS officially required, to garnish a former employee's pension. The ERS will require additional computer upgrades, overpayment request tracking and accounting system modifications, enhanced employer disbursement capabilities and possibly other resources in order to comply with this legislation. The cost of accommodating the requirements of S.B. 503 will far out-weigh the value gained by any overpayment recovery.

In addition, ERS's tax counsel has serious concerns related to Internal Revenue Code restrictions for tax-qualified plans and S.B. 503's possible violation of the Plan's exclusive benefit provisions and the IRS's prohibited transactions rules.

Therefore, while it understands the bill's intent, the ERS Board requests that the inclusion of the ERS amongst the proposal's options for salary overpayment recovery be reconsidered.

Thank you for this opportunity to provide comments on S.B. 503.



UNIVERSITY OF HAWAII SYSTEM

Legislative Testimony

Testimony Presented Before the
Senate Committee on Government Operations
January 31, 2019 at 2:45 p.m.

by
Kalbert K. Young
Vice President for Budget and Finance/Chief Financial Officer
University of Hawai'i System

SB 503 – RELATING TO SALARY OVERPAYMENTS

Chair Thielen, Vice Chair Inouye, and members of the Committee:

Thank you for the opportunity to present testimony today. The University of Hawai'i is supportive of the motive in SB 503, Relating to Salary Overpayments, but has concerns over the approach.

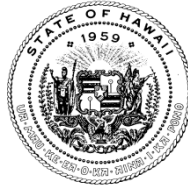
Although we recognize that salary overpayments remains an ongoing issue throughout many State departments, we would like to point out that the University's online leave system has significantly limited our exposure to overpayments related to leave abuse. To the best of our knowledge, the University is the only State agency that has an online leave system.

The University currently has no overpayments due to the overuse of sick leave. It is possible for such overpayments to occur, as we have no control over the duration an employee is out sick. The overpayments that the University currently has are mostly related to workers' compensation claims and terminations.

Requiring the University to create a manual system to track employees with leave issues would not only increase administrative overhead but would also create more opportunities for overpayments to occur. As such, we respectfully request that the bill be amended to exempt the University from the requirement in Section 3 to establish a manual accounting system.

Despite having the second largest payroll in State government, the University was third in gross amount overpaid on DAGS' August 2018 overpayment report. The University's annual payroll is approximately \$665 million and gross overpayments on the August 2018 report totaled \$102,329.64, or .015 %. Our own report on gross overpayments as of December 31, 2018 totals at \$130,132.69, which would be .019% of our annual payroll.

Thank you for this opportunity to testify.



TESTIMONY BY:

JADE T. BUTAY
DIRECTOR

Deputy Directors
LYNN A.S. ARAKI-REGAN
DEREK J. CHOW
ROSS M. HIGASHI
EDWIN H. SNIFFEN

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

Wednesday, January 30, 2019
10:30 a.m.
State Capitol, Room 430

S.B. 503
RELATING TO SALARY OVERPAYMENTS

Senate Committee on Government Operations

The Department of Transportation (DOT) **supports this bill with concerns.**

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.



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

Date: 01/31/2019

Time: 02:45 PM

Location: 225

Committee: Senate Government Operations

Department: Education

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

Title of Bill: SB 0503 RELATING TO SALARY OVERPAYMENTS.

Purpose of Bill: Requires each department to deduct the department's total salary overpayment from the department's budget request for the following fiscal biennium. Requires that employees who exhaust their sick leave be placed on a manual accounting system. Removes the 2-year statute of limitations on determination and notice to an employee of salary and wage overpayment.

Department's Position:

The Department of Education (Department) offers the following comments in SB 503, 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 HRS 78-13 (b) and (c) 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 HRS 78-13 (b) and (c). However, the Department's manual processes causes 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.