



**TEXAS LOTTERY  
COMMISSION**



# **An Internal Audit of Employee Time and Leave Processes**

**August 25, 2017**

**Report #17-006**



**McCONNELL & JONES LLP**  
CERTIFIED PUBLIC ACCOUNTANTS

*This report provides management with information about the condition of risks and internal controls at a specific point in time. Future changes in environmental factors and actions by personnel will impact these risks and internal controls in ways that this report cannot anticipate.*



## Introduction

McConnell & Jones LLP (MJ) serving as the outsourced internal audit function (Internal Audit) for the Texas Lottery Commission (TLC) performed an internal audit of the agency’s controls for employee time and leave recording, reporting and monitoring processes. We conducted this audit in accordance with generally accepted government auditing standards (GAGAS). Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe the evidence obtained provides a reasonable basis for our observations and conclusions based on our audit objectives.

Pertinent information has not been omitted from this report. This report summarizes the audit objective and scope, our assessment based on our audit objectives and the audit approach.

### Objectives and Scope

The purpose of this audit was to review the business processes related to the Texas Lottery Commission’s (TLC) time and leave recording, reporting, approving and monitoring to determine if management

controls are in place to achieve the business objectives and comply with the TLC’s policy and procedures, legislative statutes and administrative rules. We examined the following business processes during the audit process:

1. Employee time and leave recording
2. Skeleton Crew day planning and monitoring
3. FMLA monitoring
4. Leave balance monitoring
5. Manager monitoring and approval process for employee time and leave

The audit scope period was September 1, 2015 through March 31, 2017.

### Results and Conclusions

The audit procedures applied determined the internal and management controls over the employee time and leave process are effective and working as intended. The agency’s policies, automation and additional review processes ensure that employees do not receive pay for time not worked when their leave balances are exhausted. Therefore we have rated the agency’s time and leave processes as **best practices**.

| Rating         | Description of Ratings   |
|----------------|--|
| Best Practices | <b>Observations indicate best practice opportunities identified during the course of the review that may add value to the function/department/organization. Best practices do not require management comments and do not require internal follow-up to validate implementation status.</b> |
| Effective      | Controls evaluated are adequate, appropriate, and effective to provide reasonable assurance that risks are being managed and objectives should be met.   |



| Rating                   | Description of Ratings  |
|--------------------------|---|
| Some Improvement Needed  | A few specific control weaknesses were noted; generally however, controls evaluated are adequate, appropriate, and effective to provide reasonable assurance that risks are being managed and objectives should be met. |
| Major Improvement Needed | Numerous specific control weaknesses were noted. Controls evaluated are unlikely to provide reasonable assurance that risks are being managed and objectives should be met.   |
| Unsatisfactory           | Controls evaluated are not adequate, appropriate, or effective to provide reasonable assurance that risks are being managed and objectives should be met.   |

We noted two improvement opportunities related to enhancing the employee manual policies on employee time recording. These two low risk opportunities are noted below:

1. Include a clear directed statement noting it is the employee’s responsibility to accurately enter their time in Texas Lottery Commission’s Personnel Payroll System with validation performed by either a supervisor, manager or director.
2. Designate the Personnel Payroll System as TLC’s system of record for documenting employee time and supervisor approval.



**Acknowledgement:**

**We wish to thank all staff involved in this audit for their professionalism and positive outlook towards the assessment of their operations. The timely completion of this audit was due to their efforts and responsiveness to our requests.**

*Texas Lottery Commission staff work as a team to ensure that employee time and leave records are accurate. This protects the agency from paying employees for time not earned.*



## Employee Time and Leave Background

The Texas Lottery Commission Personnel Handbook Chapter 5 Work Hours and Leave (handbook), serves as TLC’s employee time and leave policies. The handbook makes it clear that all employees are entitled to leave benefits as outlined by state law and guidelines. The Executive Director has the authority granted by the Commissioners to use discretion on the administration of the laws and guidelines.

TLC’s organization structure includes 10 divisions. Each division has a designated division timekeeper who is responsible for facilitating the employee time and leave monitoring and approval processes at the division level. The division timekeeper is usually the division’s administrative assistant and the timekeeper responsibility is one of their responsibilities.

TLC division directors and their assigned division timekeepers have the responsibility of tracking and approving agency employee leave. **Figure 1** provides the number of employees managed by division directors along with the number of timekeepers.

| Division                | Full-Time Employees | # Timekeepers |
|-------------------------|---------------------|---------------|
| Executive Division      | 3                   | 1             |
| Administrative Division | 72.5                | 2             |
| Bingo Division          | 43                  | 1             |
| Enforcement Division    | 16                  | 1             |

| Division                      | Full-Time Employees | # Timekeepers |
|-------------------------------|---------------------|---------------|
| Governmental Affairs Division | 4                   | 1             |
| Legal Services Division       | 15.5                | 1             |
| Lottery Operations Division   | 136                 | 5             |
| Media Relations               | 7                   | 1             |
| Office of the Controller      | 23                  | 1             |
| Human Resources Division      | 6                   | 1             |
| <b>Total</b>                  | <b>326</b>          | <b>15</b>     |

**Figure 1: TLC Employee Counts as of June 14, 2017**

Source: Director of Human Resources and the June monthly vacancy report and TLC organization charts.

TLC also has a designated agency timekeeper position that resides in the Human Resources division. The agency timekeeper is responsible for ensuring the information entered in the PPS system is certified and supported for compliance.



## Executive Summary

Texas Lottery Commission employees are responsible for entering the correct leave amount and classification in the TLC PPS with the approvals performed by the employee’s supervisor, manager or division director.

The PPS was developed as an in-house information system to support the time and leave processes within the agency, which was previously tracked using a spreadsheet. PPS is the agency’s reporting interface to the State of Texas USPS Timekeeping System. PPS streamlined the employee time and leave processes along with providing improved reporting and ensuring consistent employee time management. The agency timekeeper is responsible for ensuring the information entered in the PPS system is certified and supported for compliance.

### State of Texas Leave Types

State agency employees can earn a variety of time and leave hours in addition to regular time. The Texas Government Code 661 notes the type of leave and the amount of hours that a state employee can earn. Texas Government Code 661 also notes the amount of leave that can be carried over to subsequent fiscal years, transferred and paid when the employee separates from state employment.

TLC’s regular working hours are 8:00 a.m. – to 5:00 p.m. Monday through Friday except for positions identified as having a flexible work schedule due to special events, lottery drawings, audits and investigations. The following types of leave are available to agency employees tracked and approved in the Texas Lottery Commission’s Personnel Payroll System.

- ✓ Holidays - Texas Lottery Commission advises each employee via the intranet

and email the holidays available to agency staff. TLC currently has 14 paid holidays with three identified state skeleton crew days.

- ✓ Vacation Hours – New employees with less than two years employment with the agency earn eight hours of vacation time per month. The maximum amount earned per month is 21 hours for employees that have worked with the state for at least 35 years. The maximum amount of vacation time that can be carried over to subsequent fiscal years is limited based on the number of years of service to the state. Maximum vacation hours allowed to be carried over are from 180 hours to 532 hours. Unused vacation time is eligible for payment at the time the employee leaves state employment.
- ✓ Sick Hours – Agency employees earn eight hours of sick leave per month. Accrued and unused sick leave can be carried over to subsequent fiscal years with no limitation. Unused sick leave is not paid when an employee leaves state employment.
- ✓ Compensatory Hours - Agency employees are credited with leave time for hours worked in addition to regular work hours. FLSA employees classified as non-exempt can earn 1.5 hours of leave time for each hour worked over the 40-hour workweek. Employees exempt from wage and hour provisions of FLSA may earn one hour of compensatory time for each additional hour worked. If an exempt employee does not use compensatory hours within 12 months of when it was earned, the employee forfeits this time. Unused compensatory time is not eligible for



- payment at the time the employee leaves state employment.
- ✓ Holiday Compensatory Hours – If the agency requires staff to work on designated skeleton crew days and holidays then those employees who worked receive holiday compensatory time.
- ✓ Administrative Leave Hours – The Executive Director can grant hours at his discretion to an employee for outstanding performance. A maximum of 32 hours per employee each fiscal year can be granted.

### Time and Leave Business Risks, Identified Controls and Audit Results

The following tables identify the employee time and leave management business objective, risks, internal controls and their effectiveness.

| BUSINESS OBJECTIVE 1 : Agency Understanding of Time and Leave Risk Environment |   |
|--|---|
| <b>Business Objective</b>  | Ensure agency staff have a strong understanding of the risks and business processes related to employee time and leave processes. This includes ensuring honest and accurate time and leave recording and approval; developed policy and procedures; training; and communicating policy or procedural changes.  |
| <b>Business Risk</b>   | Policy and procedures not developed to ensure a clear understanding of the authority, roles and responsibilities as it pertain to employee time and leave management.   |
| <b>Management Controls</b>   | <ul style="list-style-type: none"> <li>➤ Policies related to time and leave are up-to-date and updated according to the TLC policy management process.</li> <li>➤ Policy and procedures describe the employee time and leave processes and are clear on the authority, roles and responsibilities.</li> <li>➤ Training is conducted with new employees to ensure an understanding of the time and leave process.</li> <li>➤ Changes are communicated to agency employees via email or the TLC daily news on the intranet.</li> <li>➤ Policy and procedures are easily accessible via the agency intranet.</li> <li>➤ TLC staff developed the PPS system to support time and leave entry and approval process and reduce manual processes. The PPS system interfaces with the State of Texas USPS Timekeeping System.</li> </ul> |
| <b>Control Tests</b>   | <ul style="list-style-type: none"> <li>➤ Conducted interviews.</li> <li>➤ Reviewed policy and procedures.</li> <li>➤ Reviewed training topic approvals and training documentation.</li> </ul>   |
| <b>Control Environment</b>   | Effective   |
| <b>Recommended Actions</b>   | Ensure policy and procedures contain a direct statement addressing the importance of agency employees accurately entering their time and that managers verify accuracy prior to approval.   |



**BUSINESS OBJECTIVE 1 : Agency Understanding of Time and Leave Risk Environment**

|                                |   |
|--------------------------------|---|
| <b>Observation Risk Rating</b> | Low   |
| <b>Management Action Plan</b>  | Management concurs that Time and Leave policy and procedures should be clear and that employees are responsible for accurately entering their leave in a timely manner. Training is provided to new employees at the date of hire and the Personnel Handbook outlines the leave accounting procedures. Additionally, supervisors provide ongoing guidance to staff regarding the importance of following agency policy and procedures. During the next revision to the Personnel Handbook, a direct statement will be included to enhance the importance of TLC employees and managers following leave accounting procedures, including maintaining up-to-date work schedules and the weekly entry of leave to ensure the accuracy of leave balances. |

**BUSINESS OBJECTIVE 2: Time and Leave Compliance and Accuracy**

|                            |   |
|----------------------------|---|
| <b>Business Objective</b>  | Agency time and leave processes ensure federal and state compliance; accurate information recording; understanding of leave programs; timely leave request and approval process; documented dates for holidays and skeleton crew days; and effective time and leave reporting to support the management team.   |
| <b>Business Risk</b>       | <ul style="list-style-type: none"> <li>➤ Agency is not compliant with state and federal requirements.</li> <li>➤ Agency employees are not aware of leave programs and how requests are processed.</li> <li>➤ Payroll not adjusted in a timely manner due to inaccurate leave balances.</li> <li>➤ The agency’s divisions have not developed processes to ensure a review of documentation and entries in the PPS system.</li> <li>➤ Divisions do not effectively provide reporting to the management team to ensure they are aware of leave balances.</li> <li>➤ Holidays and skeleton days not communicated to agency employees and management team.</li> <li>➤ Agency does not effectively track agency employees with high compensatory time balances and low leave balances.</li> <li>➤ Agency has not developed a standardized process to ensure the division managers are effectively tracking employee leave time to ensure entries have support.</li> </ul> |
| <b>Management Controls</b> | <ul style="list-style-type: none"> <li>➤ PPS system reduces the manual process used to track employee leave. The system allows the employee to enter their leave status with the entry approved by the management team.</li> <li>➤ Division timekeepers facilitate the time and leave process.</li> <li>➤ Agency timekeeper works with division directors and timekeepers to validate the entries recorded in PPS.</li> <li>➤ PPS reports may be accessed by Human Resources and division directors to provide information to the management team on employee leave balances.</li> <li>➤ Consequential documentation pertaining to employee leave may be maintained at the divisional level and is forwarded to the agency timekeeper to ensure compliance.</li> </ul>  |



| <b>BUSINESS OBJECTIVE 2: Time and Leave Compliance and Accuracy</b> |  |
|---|--|
|   | <ul style="list-style-type: none"> <li>➤ Agency timekeeper advises the payroll team when adjustments need to occur to ensure correct payroll payments.</li> <li>➤ Documentation provided to new agency employees advising the types of leave programs, holidays and skeleton crew days.</li> <li>➤ Policy and procedures are clear on the process of how time entry is completed.</li> </ul>                                     |
| <b>Control Tests</b>  | <ul style="list-style-type: none"> <li>➤ Conducted Interviews and walkthroughs.</li> <li>➤ Reviewed policy and procedures.</li> <li>➤ Tested documentation retention and approvals.</li> </ul>   |
| <b>Control Environment</b>  | Effective  |
| <b>Recommended Actions</b>  | Ensure the policy and procedures effectively communicate that the PPS is TLC’s application of record used to track time and leave balances along with the corresponding approval to ensure compliance with state and federal regulations.  |
| <b>Observation Risk Rating</b>                                      | Low  |
| <b>Management Action Plan</b>                                       | Management concurs that the Personnel Payroll System (PPS) is the TLC’s internal application of record to track time and leave balances along with the corresponding approval to ensure compliance with state and federal regulations. During the next revision to the Personnel Handbook, a direct statement will be included to reinforce the role that PPS serves in the agency’s compliance with time and leave regulations. |

| <b>BUSINESS OBJECTIVE 3: Time and Leave Accurately Accounted</b> |   |
|--|---|
| <b>Business Objective</b>  | Time and leave data received by the finance team is reviewed for accuracy prior to payroll processing.  |
| <b>Business Risk</b>   | <ul style="list-style-type: none"> <li>➤ Payroll processed with incorrect information.</li> <li>➤ Employee leave balances not accurately recorded.</li> </ul>   |
| <b>Management Controls</b>                                       | <ul style="list-style-type: none"> <li>➤ Agency timekeeper advises the Office of Controller of employees with leave balance activity that may affect payroll processing.</li> <li>➤ Employees that require re-certification due to leave balance issues are removed from the primary payroll register to ensure validation. Once information is validated the employee is paid on the secondary payroll processing with an agency check.</li> <li>➤ Agency timekeeper and division timekeepers clarify information for the financial team.</li> </ul> |
| <b>Control Tests</b>   | <ul style="list-style-type: none"> <li>➤ Testing of processing</li> <li>➤ Interviews and walkthroughs</li> <li>➤ Reviewed supporting time and leave entry documentation</li> </ul>  |



| <b>BUSINESS OBJECTIVE 3: Time and Leave Accurately Accounted</b> |               |
|--|---------------|
| <b>Control Environment</b>                                       | Best Practice |
| <b>Recommended Actions</b>                                       | None          |
| <b>Management Action Plan</b>                                    | None Required |



## Detailed Opportunities and Recommendations

### Observation #1: Employee Time and Leave Entry Responsibility

TLC’s Personnel Handbook documents the agency’s time and leave policy. The handbook contains clearly defined time and leave policies and expectations but does not include a direct statement that it is the employee’s responsibility to accurately enter their time in the Personnel Payroll System and that a supervisor, manager or director must validate, confirm or authorize the entry.

#### Recommendation:

Update the TLC Personnel Handbook chapter 5 to include a clear statement that it is the employee’s responsibility to ensure they accurately enter their time and leave in PPS and the supervisor, manager or division director must validate the entry. Including the clear statement should help ensure that everybody in the time and leave process understands their responsibility in accurate time and leave entry and validation.

#### Management Response:

Management concurs that Time and Leave policy and procedures should be clear and that employees are responsible for accurately entering their leave in a timely manner. Training is provided to new employees at the date of hire and the Personnel Handbook outlines the leave accounting procedures. Additionally, supervisors provide ongoing guidance to staff regarding the importance of following agency policy and procedures. During the next revision to the Personnel Handbook, a direct statement will be included to enhance the importance of TLC employees and managers following leave accounting procedures, including maintaining up-to-date work schedules and the weekly entry of leave to ensure the accuracy of leave balances.

### Observation #2: Time Entry System of Record

TLC’s policy and procedures refer to the PPS system as part of the employee time and leave process but does not effectively communicate it as being the system of record for employee time and leave recording and approval. This leaves the agency open to potential external review team expectations that employee time and leave supporting documentation is maintained by divisions.

#### Recommendation:

Designate the Personnel Payroll System as the agency’s system of record for documenting employee time and leave entries; supervisor review and approval; Clear communication of the Texas Lottery Commission Personnel Payroll System as being the system of record

ensures an understanding of the role of the Personnel Payroll System as the application developed and used by the agency to ensure tracking, monitoring and oversight activities.

#### Management Response:

Management concurs that the Personnel Payroll System (PPS) is the TLC’s internal application of record to track time and leave balances along with the corresponding approval to ensure compliance with state and federal regulations. During the next revision to the Personnel Handbook, a direct statement will be included to reinforce the role that PPS serves in the agency’s compliance with time and leave regulations.



## Employee Time and Leave Processes Internal Control Environment

This section of the report provides a discussion of the risk environment managed by the Texas Lottery Commission as it pertains to employee time and leave processes.

### Governance and Compliance Risk

The Texas Lottery Commission manages the risks associated with the governance and compliance of the employee time and leave process through established policy and procedures outlined in chapter five of the agency's Personnel Handbook. These policy and procedures are reflective of state Government Code 661 and federal mandates. Policy updates occur when a process changes or every two years as per agency's policy review requirements. New employees receive a copy of the Texas Lottery Commission Personnel Handbook with the time and leave policy and procedures when they begin employment. The Personnel Handbook and policies can also be found on the agency's intranet for easy access.

The policy and procedures note documentation of process, authority, roles and responsibilities pertaining the execution and management of the time and leave process. Communication of immediate changes or special circumstances occurs through email or with the Texas Lottery Commission's Daily News to ensure employees understand the change or circumstance. Communication of holiday and skeleton crew days is completed via email or located on the agency's intranet. The agency also has tenured staff that has a mature understanding of the processes and the roles of the division timekeepers, agency timekeeper and the Personnel Payroll System.

### Time and Leave Process Risk

The managing of the time and leave prior to the current process and application was an agency-wide manual process reliant on spreadsheets and emails. The process also limited the ability to create effective reporting to ensure effective oversight over the time and leave process.

The agency's internal development of the Personnel Payroll system along with the positions of the agency timekeeper and division timekeeper has streamlined the process assuring the agency the entries reported in state's payroll system are accurate and certified by the agency's management team. This process allows the agency to address the risks associated with the operational compliance and financial risk associated with the time and leave process in an effective manner.

The agency has chosen to allow the division directors to determine the number of division timekeepers needed and their internal processes of administration based on the division's business activity and the number of employees in the division. The audit review noted despite differing methods of tracking employee leave requests at the division level there are two main processes that occur through the agency. The documentation of leave is recorded on division calendars to facilitate the operational process and the official entries are recorded and approved in the agency's Personnel Payroll System application. The Personnel Payroll System is



the application of record for the time and leave process. Verification of this understanding was evident through the

interviews and walkthroughs completed and the substantive testing of the internal controls for documentation retention and approval.

### Internal Control Environment

The Texas Lottery Commission developed, and is effectively managing their control environment to ensure compliance with state and federal employee time and leave guidelines; accurate employee time and leave entries and approvals; and certification of

employee leave balances and the payroll register. The following table provides our assessment rating of TLC’s employee time and leave recording, reporting and monitoring internal controls.

| Internal Controls and Practices  | Rating |
|--|--------|
| Employee time and leave policies and procedures are reflective of state and federal mandates.  | ★      |
| Employee time and leave policies and procedures define the authority, roles and responsibilities of the key stakeholders in the employee time and leave process.         | ★      |
| The agency has defined segregation of duties to assure the employee time, leave entries and approvals in the PPS and certification of the payroll register are accurate. | ★      |
| Agency developed a defined process and applications to support the time and leave process.   | ★      |
| Effective training and communication with new hires is completed. The agency effectively communicates changes to the time and leave process.                             | ★      |
| Employee time and leave balances are reviewed, approved and certified prior to the generation of the payroll register.   | ★      |
| Effective reporting developed to support the oversight and monitor of the processes.   | ★      |

#### Legend:



Adequate



Improvement Recommended



Not Adequate

