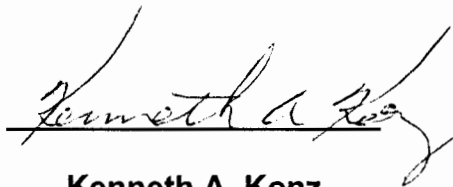


CORPORATION FOR PUBLIC BROADCASTING
OFFICE OF INSPECTOR GENERAL

AUDIT OF CPB'S EXECUTIVE LEAVE RECORDKEEPING
FOR FISCAL YEARS 2003-2005

AUDIT REPORT NO. CCE601-607

September 1, 2006

A handwritten signature in black ink, appearing to read "Kenneth A. Konz", is written over a horizontal line.

Kenneth A. Konz
Inspector General

Date: September 1, 2006

To: William P. Tayman, Jr., Chief Financial Officer and Treasurer

From: Kenneth A. Konz, Inspector General

Subject: Executive Leave Recordkeeping for Fiscal Years 2003-2005,
Audit Report No. CCE601-607

We have completed a limited scope review of executive staff members leave recordkeeping. This review was conducted as part of a larger CPB management effort to review executive compensation practices. Our objectives were to determine whether: (1) accrued leave payments made to executive staff members upon departure were accurately calculated; and (2) CPB's operating practices provided adequate accountability over executive leave recordkeeping.

Our review found that departments do not consistently retain supporting documentation of leave usage after submitting time sheets to enable us to verify the accuracy of leave accrual balances. CPB policy for reporting time and attendance does not address any recordkeeping requirements to retain supporting documentation of leave usage reported on time sheets, require the use of CPB's standard Leave Request Form when requesting leave, or require that employee's leave balances be periodically verified. We believe the general lack of accountability over leave recordkeeping resulted in the inaccurate accrual of leave and this contributed to two employees being overpaid \$16,510, upon their departure from CPB.

This report represents the conclusions of the OIG and the findings in this report do not necessarily represent CPB's final position on these matters. Accordingly, the report contains recommendations as to actions the OIG believes would be appropriate to resolve these matters. Final determinations on matters in this report will be made by CPB officials in accordance with established CPB procedures.

Based on management's response to the draft report, we consider all five recommendations resolved, but open pending implementation of management's planned actions. Accordingly, we are requesting that you provide us with a written response on the status of your corrective actions within 90 days of the final report date. For corrective actions planned but not completed by the response date, please provide milestone dates to track the implementation of outstanding corrective actions.

BACKGROUND

A recent evaluation of CPB practices disclosed various issues surrounding executive compensation, including the payout of severance packages. Part of the severance amounts paid out included accrued leave payments. Given the large balances of accrued leave payments identified during that review, it was appropriate to evaluate the accuracy of these payments and the supporting recordkeeping (i.e., leave earnings and use).

Further, a prior audit titled CPB Payroll Audit, Report No. 103, dated January 16, 2001, identified a number of internal control and procedural problems related to the submission of time sheets. The findings in that report were resolved based on the agreement with CPB officials (Offices of Budget and Finance and Human Resources) to revise Policy Number 305, Time Reporting, Attendance and Pay Procedures. These revisions included: the completion of time sheets, the submission of leave request forms, the designation of a leave coordinator to reconcile leave requests with actual leave usage, and accurate record keeping of full or partial days of absences. A draft policy, with an effective date of March 12, 2001, was prepared and provided to the OIG, resolving the audit's findings. However, these policy revisions were never implemented.

SCOPE AND METHODOLOGY

The scope of our review included a review of executive annual and sick leave earned and used during calendar years 2003-2005. We reviewed employees' time sheets, accrued leave reports, earnings statements, Leave Request Forms when available, and applicable CPB personnel policies. We interviewed three staff members responsible for submitting time sheets for executive staff members. Time sheets were not required to be submitted for the two President/Chief Executive Officers (CEOs) in office during our audit period, as a matter of policy established by the Board Chair. As a result, we could not verify the calculations of their leave balances at their departure dates.

Our review included gaining an understanding of the controls over leave requests and approvals, submission of time sheets, and recordkeeping requirements, including the use of CPB's standard Leave Request Form, to plan our audit work.

Our specific methodology included a limited judgmental sample of 11 of 21 executive staff members employed during the period January 2003 to December 2005 and the sample included all six executives who departed during 2005. For nine executive staff members in our sample, we verified the calculation of accrued leave balances. In each pay period, we verified the leave recorded in the automated time keeping system to time sheets submitted, as well as, the calculation of annual and sick leave balances as reported on the Accrued Leave Report. Employee leave balances were calculated through the last payroll in December 2005 and agreed to the accrued leaves balance records for that period. The accrued leave balances, for employees who left CPB during the review period, were also compared to their final Earning Statement to ensure

that they were not overpaid. For the two former President/CEOs in our sample, we reviewed accrued leave payments against Board Chair decisions regarding the use of timesheets and the special granting of additional annual leave to one of the Presidents be used within a six month time period.

We conducted our fieldwork during December 2005 and January 2006. Our audit was conducted in accordance with the *Government Auditing Standards* issued by the Government Accountability Office.

RESULTS OF AUDIT

Our review found that departments do not consistently retain supporting documentation of leave usage after submitting time sheets to enable us to verify the accuracy of leave accrual balances. CPB policies for reporting time and attendance do not address any recordkeeping requirements to retain supporting documentation of leave usage reported on time sheets, require the use of the CPB's standard Leave Request Form, when requesting leave, or require that employee's leave balances be periodically verified. We believe the general lack of accountability over leave recordkeeping contributed to two employees being overpaid \$16,510, at their departure from CPB, because accurate leave balances were not maintained.

Leave Recordkeeping Needs Improvement

Our review of executive staff members leave recordkeeping disclosed that we were unable to independently verify the accuracy of leave usage reported in CPB's time and attendance system because documentation of leave requests and approvals were not consistently being maintained by departmental officials. We believe this is because Policy Number 305, Time Reporting, Attendance and Pay Procedures, is silent on retaining source documents used to request and approve leave. While CPB maintains a standard Leave Request Form on their website, it is not required to be used in requesting and approving leave. We further believe this lack of recordkeeping creates vulnerabilities in the accurate reporting of leave and contributed to the overpayment of \$16,510 in accrued leave paid to two executives upon their departure from CPB.

Three officials responsible for submitting executive time sheets told us that Leave Request Forms were not always completed by employees requesting leave. We were told that emails could also be used and when the leave was approved by the executive office, the dates were usually noted on the employee's calendar. These records were not routinely retained to verify against leave reported on the time sheets.

The only recordkeeping requirements in Section 6.C. of Policy Number 305 address supervisory responsibilities to keep their own separate time records to control excessive absenteeism or tardiness. The policy addresses the traditional working relationship between a supervisor and an employee, as well as, supervisory responsibilities to approve time sheets and to ensure that adequate leave balances

exist before approving leave. However, the policy doesn't specifically address such responsibilities for executive staff members who report directly to the Chief Operating Officer (COO) or President/CEO. Further, Policy Number 305 only identifies employee and supervisory responsibilities, the policy does not require that official time keepers be established by department to track leave requests and usage and to ensure the accurate reporting of absences. We believe this is particularly important in departments where supervisors frequently travel and are out of the office.

We believe the lack of policies regarding the formal documentation of leave requests and retaining such documentation for periodic review, are potentially problematic because payroll is processed before time sheets are submitted. Further, the majority of CPB employees are exempt employees and they are only required to use leave when they are absent for a whole day or eight hours. These factors coupled with the corporation's history of not receiving all employees' time sheets on a timely basis creates vulnerabilities in the accurate recording of leave usage.

Our review also identified that 2 of 6 employees received excessive accrued leave payments totaling \$16,510 upon their departure because sufficient attention was not given to accurately tracking their leave use and accrual. We believe both situations are attributable to the lack of attention to leave accrual recordkeeping and internal mechanisms to periodically verify accrued balances in the ADP Payroll System with records maintained at the departmental level.

- A past President/CEO, was overpaid 160 hours of vacation leave in her final payment totaling \$13,515. This was brought to our attention by the Senior Director of Human Resources who stated that the President had received an authorization from the Board Chair granting her an additional four weeks of leave to be used in the first half of 2004. She was to lose it if she didn't use it during that timeframe. The Senior Director realized that the 160 hours were added to the President's accrual balance and the unused balance was never removed at the end of the 6-month time period. Additionally, upon becoming President/CEO, her employment contract reduced her vacation leave from six to five weeks per year. However, this change in accrued leave rate was never recorded in the ADP Payroll System and she continued to accrue annual leave at 9.23 hours per pay period (the 6 weeks accrual rate). These two matters resulted in the overpayment of 160 hours of accrued leave at her termination.
- A former senior executive was overpaid \$2,995 because he was not removed from the payroll system upon his departure date. The executive had requested that his final severance payment be made in January of 2005 and he was not removed from payroll until that time and he continued to accrue leave for 3 additional pay periods. In total he was paid an additional 40 hours in annual and sick leave.

As previously mentioned in the **Background** section of this report, Audit Report No. 103, CPB Payroll Audit, identified control problems in timekeeping and changes were considered to require the use of Leave Request Forms and the establishment of

department leave coordinators; however these proposed corrective actions were never implemented.

Recommendations

We recommend that the CPB revise Policy Number 305, Time and Leave Reporting, Attendance and Pay Procedures by establishing polices to:

- 1) Require each department to designate someone to serve as leave coordinator to track leave requests and usage, including executive staff members who report directly to the Chief Operating Officer or President/CEO.

Management Response

Management provided the following specific response: “Management proposes amending Policy 305 to clarify that it is the department head’s responsibility for knowing the whereabouts of his or her employees as it relates to accurate timesheet reporting, as they are responsible for authorizing the time worked and leave taken. A designated departmental leave coordinator is not practical because of the limited size of certain organizations, their physical location in proximity of other parts of their respective organizations and the limited number, if any, of administrative staff within organizations. We understand the IG’s concern that department heads who travel frequently may not have firsthand knowledge of employee attendance. As such, the enhanced policy will allow department heads to delegate their responsibility for knowing whether employees are at work or taking leave if he or she so chooses, but the ultimate responsibility lies with them.”

OIG Review and Comment

While management has not adopted our specific proposed recommendation, given the relative sizes of many of the Corporation’s departments and limited administrative support staff, they propose reinforcing supervisory responsibilities and giving supervisors the discretion to delegate their time and attendance oversight responsibilities during their absences. These actions coupled with their actions outlined in response to recommendations 2 and 3, as well as, their plans to revise processes to ensure timesheets are submitted on a timely basis, as discussed at the Exit Conference, appear reasonable. Based on these collective actions, we consider this recommendation resolved but open pending the revisions to Policy 305 and implementation of new time reporting processes.

- 2) Require employees to submit CPB’s Leave Request Forms in advance requesting annual and sick leave, as well as personal days. Leave Request Forms should also be submitted upon returning to work when employees call out sick.

Management Response

Management provided the following specific response: "Management will require that department heads maintain documentation regarding leave, but will leave it to the discretion of the individual department head as to what type of documentation is maintained and by whom. Management will also emphasize to department heads that it is their responsibility when approving time sheets to verify the accuracy of the time sheets."

OIG Review and Comment

Based on management's response, we consider this recommendation resolved but open pending formal revisions to policy guidance. Further, we recommend that documentation supporting leave usage be retained beyond the week following the end of the pay period for use in verifying the accuracy of the Leave Balance Summary Report outlined in recommendation 3. We recommend that leave usage documentation (e-mails, calendars, Leave Request Forms, etc.) should be retained and available for independent review, for the period to cover at least the next financial statement audit.

- 3) Institute the practice of annually reconciling the leave coordinator's leave usage documents (Leave Request Forms) with the ADP Payroll System's accrued leave balances.

Management Response

Management provided the following specific response: "Management will develop a new Leave Balance Summary Report that will be provided to all departments the week following the end of a pay period. This report will reflect both leave earned and leave used in a given pay period and will provide current balances of leave by category for each departmental employee. This report will serve as an on-going audit tool for departments to monitor leave balances by employee as well as a check and balance for leave usage reported versus leave approved or taken. The report will be supported by an Individual Leave Balance Report that will show leave used by pay period for each departmental employee. If a discrepancy arises, the documentation maintained by the department head will be available to assist in reconciliation. In addition, procedures to ensure timely submissions of time sheets will be implemented. Management believes that these new reports and procedures will adequately strengthen controls to eliminate the need to conduct an annual reconciliation of leave balances in the ADP Payroll System."

OIG Review and Comment

While management has not adopted our specific recommendation, their proposed actions to develop a new and accurate Leave Balance Summary Report and Individual Leave Balance Report to be used the week following the end of the pay period to

monitor leave balances and check the accuracy of , leave reporting, coupled with proposed actions discussed at the Exit Conference to improve the timeliness of time reporting, appear reasonable. Based on management's proposed actions, we consider this recommendation resolved but open pending development and implementation of the new leave reporting tools and changes to the time reporting practices.

- 4) Require departmental leave coordinators to maintain copies of Leave Request Form approvals for use in verifying the accuracy of the ADP Payroll System's accrued leave reporting.

Management Response

In response to recommendation 2 management decided to not mandate the use of the Leave Request Form, but rather leave it to the discretion of the individual department head to decide what type of documentation they would use and maintain to document leave usage.

OIG Review and Comment

Based on management's response and proposed actions to recommendation 2, we consider this recommendation resolved but open pending implementation of planned corrective actions.

- 5) Establish policies that remove employees from the payroll system on their last day of employment to prevent them from continuing to accrue leave after their employment has stopped.

Management Response

Management concurred with the recommendation and will develop a written policy to address this recommendation.

OIG Review and Comment

Based on management's response we consider this recommendation resolved but open until the Corporation develops and implements this policy.

cc: Patricia de Stacy Harrison, President & CEO
Vincent Curren, Executive Vice President & COO
Westwood Smithers, Jr., Senior Vice President, General Counsel
John Thornburg, Vice President & Controller
Alicia Schoshinski, Senior Director Human Resources Mgmt & Development