



## OFFICE OF THE STATE AUDITOR

TWO COMMODORE PLAZA  
206 EAST NINTH STREET, SUITE 1900  
AUSTIN, TEXAS 78701

LAWRENCE F. ALWIN, CPA  
State Auditor

August 12, 1998

Re: An Audit of Leave  
Accounting Practices

Members of the Legislative Audit Committee:

Texas entities' leave accounting practices, specifically those concerning Fair Labor Standards Act (FLSA) overtime and state compensatory time, are generally in compliance with state and federal regulations. Our audit of the leave accounting practices at four state agencies noted areas where improvements are needed; however, none of the issues noted indicate serious noncompliance with laws and regulations. The following agencies were audited:

- Department of Human Services
- Alcoholic Beverage Commission
- Department of Transportation
- Department of Health

The State of Texas expended \$34.3 million on overtime and compensatory time in fiscal year 1997. Additionally, the State incurred a liability of approximately \$61.8 million for 4,862,839 overtime and compensatory hours not expended as of the end of fiscal year 1997. While \$61.8 million is less than 1 percent of the General Revenue Fund, this dollar amount is still significant enough to warrant our review.

The risk to the State is high if state and federal laws over overtime and state compensatory time are not followed; therefore, it is imperative that controls in this area be strong. Penalties for noncompliance with the Fair Labor Standards Act include up to three years back pay awarded to the employee, a \$10,000 fine to the agency, and/or six months imprisonment for officials who willfully violate the law.

Common issues were noted at the four agencies audited during this project and in prior State Auditor's Office audits of leave accounting controls. These issues include:

- Errors in calculating overtime hours (error rates of 3 to 17 percent were found at the four agencies audited)
- Poor controls for detecting or preventing negative leave balances
- A lack of documentation to support FLSA determinations

As a result, we are developing an Overtime Management Guide to assist agencies in dealing with these common problems. Our hope is that this Guide will reduce the risk to the State. The Guide will be released in September 1998.

Members of the Legislative Audit Committee  
August 12, 1998  
Page 2

We appreciate the assistance and courtesy of the four agencies reviewed in this audit. If you have any questions, please contact Kelli Dan at (512) 479-4700.

Sincerely,

Lawrence F. Alwin, CPA  
State Auditor

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