



OFFICE OF THE INSPECTOR GENERAL LAUREL, MARYLAND

YEAR-END PAYROLL SPECIAL PAY COMPLIANCE AUDIT HUMAN RESOURCES OFFICE FINANCE DEPARTMENT



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OIG PROJECT NUMBER 25-YEP-01

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OG #20241017-022204




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FROM: DAISY QIAN, AUDITOR
OFFICE OF THE INSPECTOR GENERAL 

DATE: JUNE 3, 2025

**SUBJECT: OFFICE OF THE INSPECTOR GENERAL
YEAR-END PAYROLL – SPECIAL PAY COMPLIANCE AUDIT**

We have performed a Special Pay Compliance audit of WSSC's payroll. The detailed report is attached for your review. The OIG conducted the audit in accordance with the U.S. Government Accountability Office's *Generally Accepted Government Auditing Standards* (GAGAS).

We have already discussed with management issues of concern and their action plans are included in this report. We appreciate the assistance provided by management and other personnel. We hope the information and recommendations presented in our report are helpful.

Attachment

cc: Corporate Secretary, (J. Montes De Oca)
Chief of Staff, (N. Hickson)
Performance and Accountability Director (Acting), (H. Hagos)
Chief Human Resource Officer, (V. Farrar)
Chief Financial Officer, (M. Musara)
Total Rewards & HRIS Division Manager, (L. Watts)
Disbursement Division Manager, (P. Edwards)
Payroll Section Manager, (D. Hickmon)
HR & Financial Info Systems Section Manager, (L. Behera)

EXECUTIVE SUMMARY



Why The OIG Did This Audit

In accordance with the Washington Suburban Sanitary Commission (WSSC) Office of the Inspector General's (OIG) Fiscal Year (FY) 2025 Risk-Based Work Plan, and the authority granted to the OIG pursuant to Public Utilities Article, § 17-605 (a)(6) of the Annotated Code of Maryland, the OIG conducted a Year-End Payroll – Special Pay Compliance Audit. The OIG conducted the audit in accordance with the U.S. Government Accountability Office's *Generally Accepted Government Auditing Standards*.

Payroll represents a significant portion of WSSC's operational expenses, with various types of special pay, including but not limited to overtime, additional regular time, compensatory time, stand-by or call-back pay, meal allowances, and acting pay, impacting overall labor costs.

Ensuring these payments are properly approved and accurately recorded is essential in preventing errors, non-compliance, fraud, waste, and abuse.

Strategic Alignment

This report addresses WSSC's Strategic Priority: Affordability & Financial Viability.

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The Audit Highlights Opportunities to Strengthen Special Pay Oversight

What the OIG Found

The objective of this audit was to provide management with an independent and objective assessment of whether employee special pay compensation was in compliance with relevant laws, regulations, and WSSC's policies and procedures. To accomplish the objective, the OIG examined the payroll transactions from the pay period ending July 8, 2023, through June 22, 2024.

While most aspects of special pay compensation were processed in accordance with WSSC's established policies and procedures, the OIG identified deficiencies in the administration and oversight of special pay. Specifically, the OIG identified the following issues:

- Lack of standardized operating procedures and documented approvals for stand-by duty assignments;
- Lack of policies and procedures governing the authorization and payment of additional regular hours; and,
- Lack of formal oversight for overtime approval and tracking.

The OIG presented the following recommendations to WSSC's management to improve the administration and oversight of special pay:

- Enforce SOP development and approval for stand-by assignments;
- Establish clear guidelines and controls for additional regular hours; and,
- Strengthen overtime approval and monitoring controls.

WSSC management has addressed each of the OIG's recommendations, and where applicable, presented operational improvements or provided corrective action plans with anticipated due dates. OIG accepts management's response and will track the status of management's remediation plans.



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BACKGROUND

In accordance with the Washington Suburban Sanitary Commission's (WSSC) Office of the Inspector General's (OIG) Fiscal Year (FY) 2025 Risk-Based Work Plan and the authority granted to the OIG pursuant to Public Utilities Article ("PUA"), § 17-605 (a)(6) of the Annotated Code of Maryland, the OIG conducted an audit of the Commission's payroll system, with a focus on special pay compliance. The OIG conducted the audit in accordance with the U.S. Government Accountability Office's *Generally Accepted Government Auditing Standards* (GAGAS).

WSSC complies with the Fair Labor Standards Act (FLSA), which mandates that nonexempt employees receive overtime compensation at a rate of one and one-half times their regular rate of pay for all hours worked in excess of 40 hours in a workweek.¹ Further, as memorialized in Chapter 9.200.010 of WSSC's Manual of Standard Procedures (SP Manual), WSSC is responsible for establishing compensation guidelines for employees who are placed on stand-by status or required to report to work without advance notice, either after completing a regular work shift or on unscheduled workdays.

Payroll represents a significant portion of WSSC's operational expenses, with various types of special pay, including but not limited to overtime, additional regular time, compensatory time, stand-by or call-back pay, meal allowances, and acting pay, impacting overall labor costs. Special pay compensates employees for time worked beyond their standard schedules or specific work-related circumstances. Ensuring these payments are properly approved and accurately recorded is essential in preventing errors, non-compliance, fraud, waste, and abuse. Given the importance of payroll integrity and WSSC's large workforce, the OIG conducted this audit to assess compliance related to special pay compensation processing.

The Human Resources (HR) Office, the Payroll Section under the Finance Department, and the Information Technology (IT) Department each play a role in administering and overseeing the entire payroll process. The HR Office is responsible for employee classification, compensation policies, and maintaining personal records in the Human Resources Information System (HRIS). The Payroll Section under the Finance Department is responsible for processing employee pay, ensuring compliance with pay policies, and executing payroll transactions in Oracle E-Business. The IT Department maintains and manages payroll-related systems to ensure system security, data integrity, and proper integration between HR and Finance functions.

Employees in the Utilities Service Department use the Maintenance Management Information System (MMIS) to record their timesheets daily. Each night, a batch process imports MMIS timesheets into the Oracle Time and Labor (OTL) staging table. The Payroll Specialist or Senior Accounting Clerk under the Payroll Section then executes a weekly process to import

¹ 29 U.S.C. § 207(a)(1) (2024); see also *Overtime Compensation*, U.S. Dept. of Labor, <https://www.dol.gov/agencies/whd/overtime> (last visited May 5, 2025).

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MMIS timesheet data from the staging table into OTL time elements. All other employees enter their timesheets directly into OTL. See Figure 1 for a visual overview of this process.

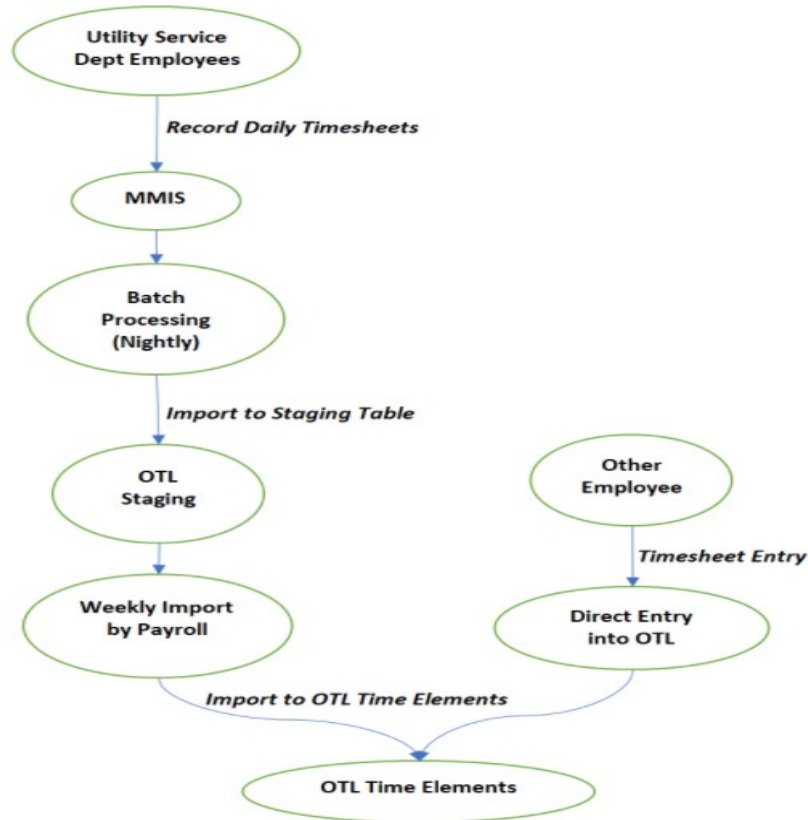


Figure 1: Timesheet Data Flow - Prepared by OIG Auditor

OBJECTIVE

The objective of this audit was to provide management with an independent and objective assessment of whether employee special pay compensation was in compliance with relevant laws, regulations, and WSSC's policies and procedures.

SCOPE AND METHODOLOGY

The scope of this audit was to examine the payroll transactions from the pay period ending July 8, 2023, through June 22, 2024.

To achieve the audit's objective, the OIG performed the following methods and procedures:

- Reviewed applicable laws, regulations, policies, procedures, and internal documentation to determine audit criteria;

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- Conducted interviews with personnel from the HR Office, Finance Department, and IT Department to obtain information and an understanding of the payroll processes;
- Analyzed overtime payments for compliance with relevant labor laws, including the FLSA and WSSC policies and procedures;
- Verified additional regular pay and compensatory time to ensure all payments were properly authorized, accurately recorded, and appropriately tracked;
- Confirmed stand-by pay was processed in accordance with applicable departmental standard operating procedures;
- Performed data analytics to identify anomalies in payroll transactions;
- Reviewed meal allowance transactions for accuracy and consistency with policy requirements; and,
- Examined acting pay to ensure proper approval, payroll processing, and compliance with governing policies.

GAGAS requires the OIG to plan and perform the audit to obtain sufficient, appropriate evidence that will provide a reasonable basis for our findings and conclusions based on our audit objective. Accordingly, based on the audit's scope and objectives, the evidence obtained during this audit provides a reasonable basis for our findings and conclusions stated herein.

CONCLUSION

Based on the audit work performed, the OIG determined that while most aspects of special pay compensation were processed in accordance with WSSC's established policies and procedures, the documentation disclosed several deficiencies in the administration and oversight of special pay. Specifically, the OIG identified the following issues:

- Lack of standardized operating procedures and documented approvals for stand-by duty assignments;
- Lack of policies and procedures governing the authorization and payment of additional regular hours; and,
- Lack of formal oversight for overtime approval and tracking.

Additionally, the OIG has communicated less significant internal control deficiencies (low-rated issues) associated with this audit to appropriate WSSC management in a separate OIG Memorandum.

The OIG appreciates the cooperation and acknowledges the efforts of the HR Office, Payroll Section, IT Department, and other personnel, despite their busy schedules. Their collaboration in providing information and addressing inquiries was invaluable in ensuring a comprehensive audit.

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FINDINGS, MANAGEMENT RESPONSES AND ACTION PLANS

Finding 1: Lack of Standardized Operating Procedures and Documented Approvals for Stand-By Duty Assignments

Risk Rating: HIGH

According to Section 9.200.040 (g) of the SP Manual, *Compensation for Stand-By and Call-Back*, states that each department with stand-by or call-back duty assignments must develop standard operating procedures (SOPs) as to how employees in these categories are to handle emergencies. These SOPs shall identify the job classifications subject to mandatory stand-by or call-back assignments and define the process for selecting and assigning individuals. Before implementation, each department's SOP must be submitted to the GM/CEO's office for consistency review and approval.

A review of payroll transactions during the audit period disclosed that employees across seven (7) departments earned stand-by time, totaling 16,327 hours totaling \$858,319. However, only three (3) departments had developed SOPs for stand-by duty assignments, and none had been submitted for the required review and approval by the GM/CEO, as mandated by policy. The remaining four (4) departments operated without any formally approved procedures governing the selection, assignment, or compensation of employees for these duties.

The primary cause of this issue is that the departments did not consistently develop SOPs, and WSSC lacked a centralized process to track SOP development and secure required GM/CEO approvals. Many departments relied on informal practices to manage stand-by assignments rather than following the formal policy requiring documented procedures. Additionally, the absence of oversight and enforcement mechanisms contributed to non-compliance, as there is no proof to ensure consistent application of stand-by policies across the Commission.

Without standardized procedures, there is an increased risk that stand-by duty assignments are made without clear, consistent, and equitable criteria. This lack of uniformity undermines transparency and accountability, leaving departments vulnerable to subjective decision-making and potential favoritism. The absence of formal guidance not only increases the likelihood of inequitable treatment among employees, but also financial risk exposure due to improper or unverified compensation. Moreover, it hampers operational efficiency by creating uncertainty around staff availability and responsiveness. From a strategic perspective, the inability to reliably forecast stand-by obligations complicates workforce planning and budget development, weakening the Commission's ability to allocate resources effectively and uphold sound fiscal management.

Recommendation 1: Enforce SOP Development and Approval for Stand-By Assignments

The OIG recommends that all departments with stand-by duty assignments be required to develop SOPs that comply with WSSC policy. These SOPs should (1) clearly outline job classifications eligible for mandatory stand-by assignments, (2) define selection and assignment processes, and (3) establish guidelines for handling emergencies. Upon development, all

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departments must submit their SOPs to the GM/CEO or their designee for review and approval before implementation.

By enforcing these measures, WSSC will improve compliance, promote fairness in stand-by duty assignments, and ensure efficient and effective management of emergency response operations.

Management Response and Action Plan (including anticipated due dates)

The Human Resources Office agrees with the finding since it is currently in the SOP; however, management recommends changes to the SOP to include the changing the GM/CEO' office for approval to the Deputy General Manager or equivalent position in grade EX.4. We also, recommend the language should say departmental IOP instead of SOP. The Compensation & HRIS section will collect all of the applicable approved departmental IOPs by March 31, 2026.

Finding 2: Lack of Policies and Procedures Governing the Authorization and Payment of Additional Regular Hours
Risk Rating: HIGH

Chapter 9.215 of the SP Manual, *Overtime Procedures*, provides clear rules for compensatory time, but lacks specific direction on additional regular hours for FLSA-exempt employees.

According to § 9.215.040 (b)(2)(i), compensatory time is not offered to nonexempt employees for overtime. In contrast, § 9.215.040 (c)(2) permits the General Manager/CEO or Deputy General Managers to authorize compensatory time for FLSA-exempt employees who work more than 45 hours in a week, with a maximum accrual limit of 80 hours. Additionally, § 9.215.040 (c)(6) requires that compensatory time for exempt employees be supported by written authorization, which must include the beginning and end dates as well as justification to receive overtime compensation.

The *Overtime Procedures* do not provide guidance on additional regular hours for exempt employees. During this audit, WSSC management referenced § 9.215.040 (d) of the SP Manual as the basis for awarding additional compensation above one's regular pay. Section 9.215.040 (d) permits the GM/CEO to authorize, in writing, to modify how overtime and compensatory time are calculated and accrued during emergencies, facility closings caused by inclement weather or other unanticipated events, or to address other contingencies that would be in the best interest of WSSC. However, this section addresses overtime and compensatory time exceptions; it does not authorize or define the use of additional regular pay for FLSA exempt employees.

While compensatory time is governed by clearly defined eligibility criteria, it starts at 46 hours and is capped at 80 hours. In contrast, additional regular hours, which start accumulating at 41 hours per week, are not subject to a defined cap, lack established eligibility requirements, and do not require a formal approval process.

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A review of payroll transactions disclosed that FLSA-exempt employees, those who are not legally entitled to overtime pay, were compensated through additional regular hours in the absence of formal procedural guidance. The OIG analyzed data and identified thirty-eight (38) employees who received such compensation without written authorization from the GM/CEO. Of these thirty-five (35) employees had no documented approval on file, while the remaining three (3) had prior-year authorizations that did not cover the audit scope period. The total financial impact of these 38 unauthorized transactions was \$561,393.

Also, the information disclosed during this audit and reviewed by the OIG revealed that compensatory time and additional regular hours were awarded to FLSA-exempt employees inconsistently. For example, 29 exempt employees were awarded a total of 786 compensatory hours, which only accrue after an employee works more than 45 hours in a week, totaling \$59,339 in compensation. In contrast, 219 employees with the same exempt status received 22,056 additional regular hours, which begin accruing after working more than 40 hours in a week, totaling \$1,274,588 in compensation.

CATEGORY	NUMBER OF EMPLOYEES	TOTAL HOURS PAID	TOTAL COMPENSATION
Compensatory Hours	29	786	\$59,339
Additional Regular Hours	219	22,056	\$1,274,588

Four of the 219 exempt employees received additional regular pay that far exceeded the standard 2,080 annual work hours by at least 29% and a maximum of 56%, as there is no cap on additional regular hours. Specifically, Employee A was paid 1,175 additional hours, Employee B was paid 1,035 hours, Employee C was paid 663 hours, and Employee D was paid 599 hours.

The primary cause of this finding is the lack of policies or procedures defining the eligibility criteria, approval requirements, and limits for additional regular pay. In contrast to compensatory time, which is explicitly outlined in WSSC procedures and capped at 80 hours, there is no comparable guidance for additional regular pay. As a result, employees may accrue an unlimited number of additional regular hours.

The lack of guidance for additional regular hours has increased labor costs, contributed to inconsistent application of compensation practices, and weakened internal controls. Without defined eligibility criteria, approval procedures, and accrual limits, there is a risk of inequitable treatment of employees, budget overruns, and operational inefficiencies.

Recommendation 2: Establish Clear Guidelines and Controls for Additional Regular Hours

The OIG recommends that management establish clear policies or procedures for additional regular pay. This revision should define eligibility, approval requirements, and accrual limits to ensure fair and consistent application across all departments, among other things.

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Written authorization from the GM/CEO or their designee should be required for all instances of additional regular hours, with clear justification, duration, and limits specified in the approval process.

Management should consider conducting a workforce analysis to determine whether staffing shortages or workload distribution issues contribute to disproportionate additional hours and to identify opportunities to minimize reliance on additional regular hours.

By implementing the recommendation, WSSC will promote a transparent compensation practice, reduce financial and compliance risk, and maintain consistency in pay policies for exempt employees.

Management Response and Action Plan (including anticipated due dates)

The Human Resources Office agrees with the finding. We will revise the SP to include the approval process for additional regular pay similarly to the approval process for compensatory time. We anticipate the revised SP to be in place by March 31, 2026.

The Performance and Accountability Office is performing a workforce analysis which considers additional regular pay; this is as a pilot program.

Finding 3: Lack of Formal Oversight for Overtime Approval and Tracking
Risk Rating: MEDIUM

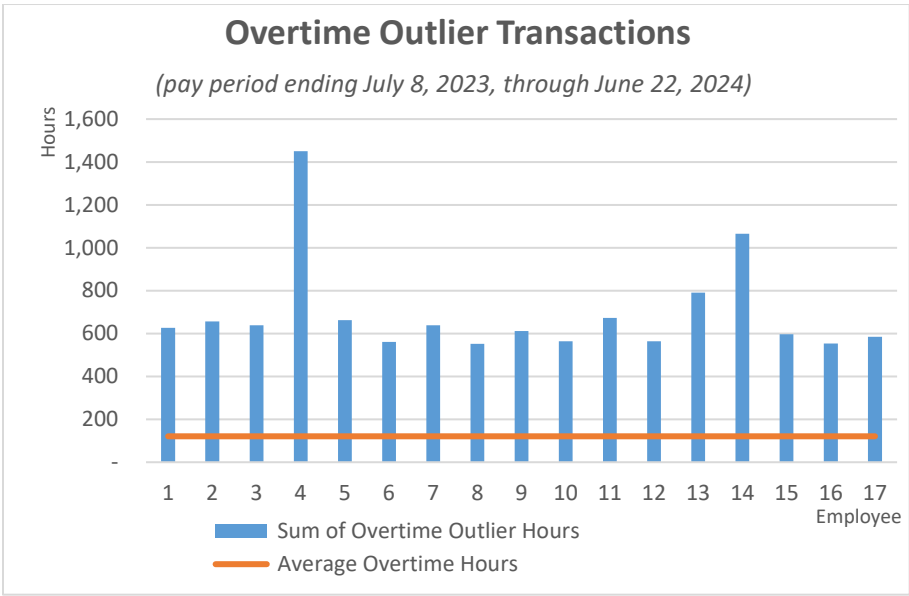
Section 9.215.040 (a) of the SP Manual states that any voluntary overtime hours must have prior approval. If prior approval is not given before an employee works overtime, an employee may be subject to discipline. However, the policy does not specify that approval must be documented in writing.

Management primarily focuses on ensuring adequate staffing for overtime shifts; however, it does not consistently enforce or document prior approval. This is largely due to the current policy's omission of a requirement for written authorization in advance of voluntary overtime work.

During the audit period, 885 employees received overtime compensation. Through data analysis, the OIG identified seventeen (17) outlier cases where overtime hours significantly exceeded the average.² Of these seventeen outliers, only one (5.9%) had documented approval, while the remaining sixteen (94.1%) lacked documentation. As a result, some employees accumulated excessive overtime without appropriate oversight or written approval. Notably, one outlier employee recorded 1,451 overtime hours, exceeding the standard 2,080 annual work hours by 70% with no documented approval. A chart illustrating the outliers is included below.

² The auditor used data analytics software to identify outliers that significantly deviated from the average total of 120.83 overtime hours during the audit period.

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The lack of clear requirements for documented prior approval has led to reliance on verbal approvals, which limits accountability and prevents reliable record-keeping. There is no formal requirement or process to ensure managers regularly monitor excessive overtime usage at each employee level. Consequently, according to management, oversight focuses more on overall budget compliance rather than proactive management of individual overtime patterns.

Without a formal requirement or structured process to ensure managers regularly review overtime reports, excessive or unauthorized overtime may continue without detection or intervention. Additionally, the lack of written documentation for overtime approvals further weakens accountability and prevents the enforcement of WSSC’s overtime policy. This will result in increased payroll costs and inconsistent application of approval standards. Extended overtime will negatively impact employee well-being, leading to long-term health concerns. Over time, the absence of structured monitoring and control will lead to workforce imbalances, operational inefficiencies, and reputational risks for WSSC.

Recommendation 3: Strengthen Overtime Approval and Monitoring Controls

The OIG recommends that management revise its overtime procedure to require that all prior approvals for voluntary overtime be documented, whether through email correspondence or a designated approval log. Additionally, management should establish a process to retroactively document approvals for emergency or urgent overtime assignments immediately after the event concludes, ensuring accountability while accommodating operational emergencies.

Further, the OIG recommends that management conduct a periodic review to ensure compliance with overtime policies while allowing flexibility for urgent operational needs.

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Strengthening these controls will help mitigate financial and operational risks associated with excessive or unauthorized overtime while safeguarding employee well-being and productivity.

Management Response and Action Plan (including anticipated due dates)

The Human Resources Office agrees with the finding. We are currently revising the Overtime SP, and we will include a requirement for written approvals for voluntary overtime to be documented and maintained by department management. This SP will be revised and implemented by March 31, 2026.