Payroll Processing Audit

April 1, 2016

**City of Fort Worth
Department of Internal Audit**

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Fort Worth, Texas 76102

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The Payroll Processing Audit was conducted as part of the Department of Internal Audit's Fiscal Year 2015 Annual Audit Plan.

Audit Objectives

The objectives of this audit were to:

- evaluate internal controls governing the payroll process;

- ensure that payroll is properly calculated and reported; and

- ensure compliance with City policy and applicable payroll regulations.

Audit Scope

January 1, 2013 to December 31, 2014. Expanded to calendar year 2015 as deemed necessary.

Opportunities for Improvement

- Explicit management approval of payroll payments above a specified amount

- Timely submittal of personnel action request documents

- Enhanced reporting of time not approved by managers

- Updated Personnel Rules & Regulations

- Improved exception reporting

- Revised Out-Processing and other payroll forms

- Two decimal place pay rates where appropriate

Executive Summary

As a part of our FY2015 Annual Audit Plan, the Department of Internal Audit conducted a Payroll Processing Audit that covered calendar year (CY) 2013 and CY2014. Audit testing was expanded to CY2015, as deemed necessary.

The City of Fort Worth is responsible for the processing of employee payroll for over 6,000 full-time and approximately 500 part-time positions, an annual payroll cost in excess of $500 million (as noted in the Background section of this report). We concluded that the majority of City payroll transactions are processed accurately and timely. However, our audit results indicate that internal control improvements are necessary to adequately address issues identified during this audit.

- Miscalculated payments for unused leave (also referred to as terminal leave payments) resulted in $244,730 in overpayments. A total of $193,921 was overpaid during CY2013, $0 during CY2014 and $50,809 during CY2015. These overpayments resulted because pay rates were not properly adjusted.

- The City reinstated vacation, holiday, and sick leave hours to one reinstated employee, although the employee had already received a terminal leave payment/overpayment for those same hours.

- We identified $4,814 in terminal leave payroll underpayments for two employees. The underpayments appear to have resulted from a combination of system processing and human error.

- The untimely submittal and/or processing of personnel action requests resulted in the City paying former employees for hours after their termination dates. These overpayments totaled $6,960.

- Department managers did not approve four (4) to 10 percent of employee reported time. While managers are in a better position to know when their direct reports actually worked, the Human Resources Department was required to "mass approve" time to ensure that those employees were paid as required by law.

- A review of CY2014 reported hours worked indicated that 20 employees had more than 80 hours of combined regular, vacation, sick, and/or holiday time during a pay period. Also, accrued vacation, holiday and sick leave balances were overstated by a total of 1,904.20 hours for three (3) employees.

- We identified approximately $4,500 in overpayments to over 50 employees due to failure to approve prior period credit adjustments. During the audit, a revised process was implemented to prevent potential reoccurrence. Efforts were also made to recoup the overpayments.

- Personnel Rules & Regulations are not consistent with labor contracts, payroll advisories, or current practices. Also, the Out Processing form includes unnecessary elements and excludes critical items.

- Payroll charges (employer contributions), estimated at less than $20,000, were misallocated to funds due to a CY2015 PeopleSoft system modification. It should be noted that although the split was incorrect, the total payroll charge was accurate. Based on a review of CY2016 payroll data, the system error appears to have been resolved.

- Approximately 50% of employees have authorized pay rates that consist of between four and six decimal places. However, employee payroll advices, for those employees, only display pay rates at two decimal places. Gross salaries noted on pay advices, therefore, do not equal the number of hours worked multiplied by the pay rate displayed on the pay advice.

These findings are discussed, in further detail, within the Detailed Audit Findings section of this report.
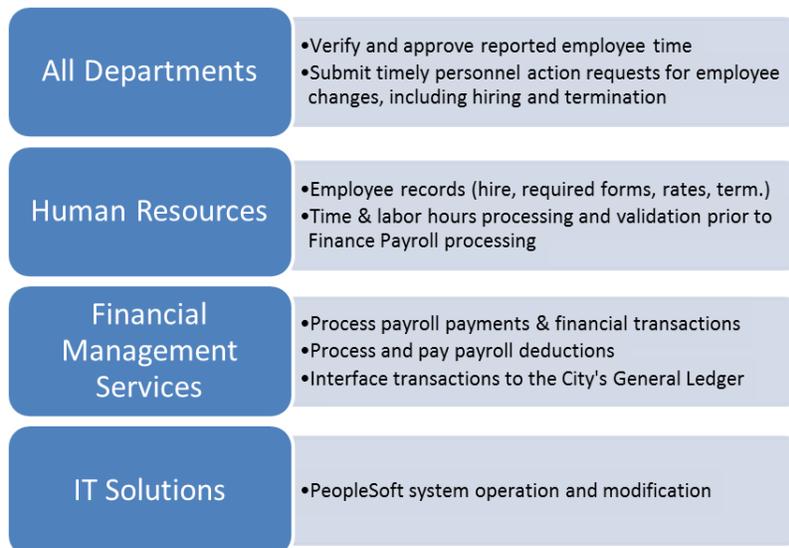
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Background

Payroll represents the City's largest operating expenditure, at over $500 million per year. Payroll internal controls are, therefore, critical for ensuring that employee pay and deductions are calculated accurately. Since FY2011, the City has used the PeopleSoft Human Capital Management System for payroll processing.

Gross Payroll Expense Total
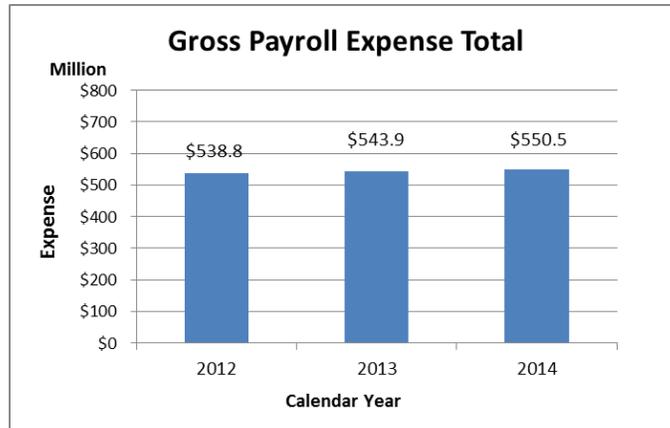
Source: Interface from PeopleSoft payroll system to the General Ledger

The Human Resources (HR), Financial Management Services (FMS), and Information Technology Solutions (ITS) Departments have primary responsibility for payroll processing functions. However, all departments are responsible for accurate employee time reporting, recordkeeping, and initiating the employee hiring/termination processes.

Departments with Payroll Processing Responsibilities

All Departments	•Verify and approve reported employee time •Submit timely personnel action requests for employee changes, including hiring and termination
Human Resources	•Employee records (hire, required forms, rates, term.) •Time & labor hours processing and validation prior to Finance Payroll processing
Financial Management Services	•Process payroll payments & financial transactions •Process and pay payroll deductions •Interface transactions to the City's General Ledger
IT Solutions	•PeopleSoft system operation and modification

Payroll Complexity

State and federal law, labor contracts, and personnel rules and regulations govern local government payroll, which is very complex. This complexity is attributable to varied City operations and employee work shifts, position classifications, and other guidelines and rules. In addition, civil service rules and labor contracts add additional requirements. The PeopleSoft system used by the City of Fort Worth is also complex and requires a high level of technical skill to operate and manage effectively.

User Department Responsibilities

Employees are required to report and/or review their hours worked each pay period. Department managers are in the best position to have knowledge about the hours worked by the employees they supervise, and are therefore, required to approve the hours worked. When department managers do not approve time by the payroll deadline, HR or other authorized employees must "mass-approve" the time to ensure that employees are paid as required by federal law. HR sends exception reports to departments each pay period. Departmental timekeepers are required to generate additional reports from standard queries to detect and correct errors prior to processing payroll for hours worked.

Human Resources (HR) Department

HR personnel maintain manual and system files related to employee hiring, pay rates, benefits, voluntary payroll deductions and termination. HR personnel manage the reported time validation process each pay period by working with user departments and generating queries. HR then takes reported time and applies processing rules [i.e., no more than 80 hours in one pay period] to generate "payable time" for transactions that process successfully. Exception reports are made available to user departments for follow-up. A checklist is used as part of HR's process.

Hiring and Termination

Departments submit documents required to hire and/or terminate employees. Timely submission of these documents is critical for ensuring that new hires are paid for time worked, and to ensure that terminated employees are not paid after their effective termination date.

The payroll process begins with the hiring of employees, which requires coordination between departments and HR. Departments must initiate the hiring/termination process and notify HR about the start date for new hires and the termination date for terminating employees.

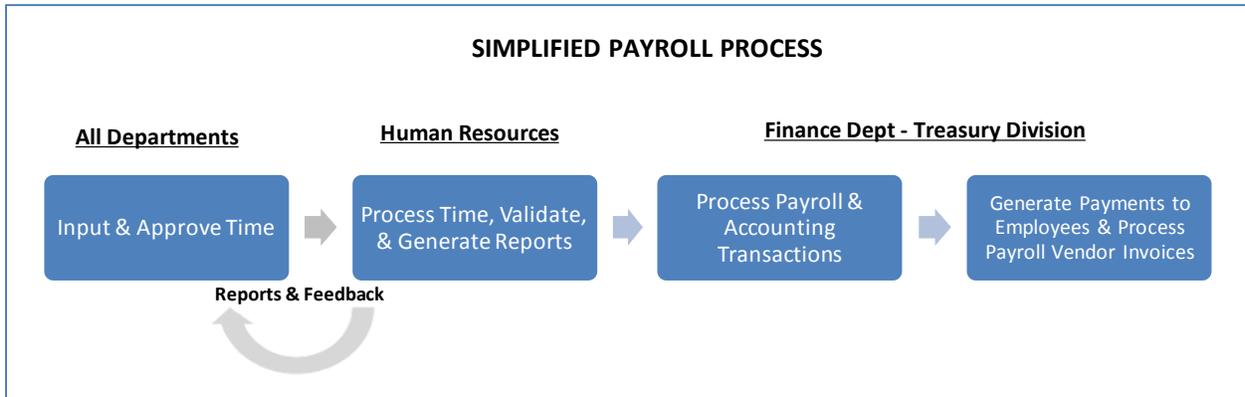| Employee Turnover		
Calendar Year 2014		
Count of:	Regular	Temporary
New Hires	568	543
Terminations	(508)	(443)

Source: PeopleSoft payroll system

Financial Management Services (FMS) Department

After HR personnel process time (time worked and absences) reported by individual departments, FMS coordinates the payroll payment and accounting processes to generate ACH drafts, check payments and related accounting transactions. In CY2014, 99.6% of payroll payments were made through direct deposit, with only terminal leave balance payments and a small number of other payments paid by paper check. FMS uses a checklist to ensure that all required steps have been performed, including ensuring that ITS has transmitted payment files to the bank.

Information Technology Solutions (ITS) Department

ITS manages the PeopleSoft payroll system, including coordinating bi-weekly payroll processing, resolving technical payroll issues, and making system updates.

SIMPLIFIED PAYROLL PROCESS

All Departments — Input & Approve Time

Human Resources — Process Time, Validate, & Generate Reports

Finance Dept - Treasury Division — Process Payroll & Accounting Transactions → Generate Payments to Employees & Process Payroll Vendor Invoices

Reports & Feedback

Source: Auditor-generated

Leave and Absences

The PeopleSoft system calculates accrued leave rates based on employee job classifications and tenure. Internal controls, within PeopleSoft, limit vacation and sick leave available to employees so that an employee is not allowed to use leave that has not been earned. While the system does not require management approval for most types of leave (due to the system controls), managers may view leave taken when approving departmental payroll.

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Objectives

The objectives of this audit were to:

- evaluate internal controls governing the payroll process;

- ensure that payroll is properly calculated and reported; and,

- ensure compliance with City policy and applicable payroll regulations.

Scope

The scope of the Payroll Processing Audit was from January 1, 2013 to December 31, 2014. When deemed necessary, our audit testing was expanded to include Calendar Year 2015.

We did not audit workers compensation, disability supplements, overtime or garnishments of employee pay. Also, our review of PeopleSoft system access was limited since system access was included in a 2013 review conducted by an outside vendor, CoalFire.

Methodology

To achieve the audit objectives, the Department of Internal Audit performed the following:

- interviewed Human Resources, Financial Management Services, and Information Technology Solutions staff responsible for payroll processing;
- reviewed and analyzed Personnel Rules and Regulations, labor contracts and other policy documents;
- extracted and analyzed PeopleSoft system data;
- reviewed documentation for special pay processing, including payroll corrections and accrued leave balance payments;
- reviewed payroll deduction accounting and vendor payments, excluding garnishments;
- verified Medicare calculations;
- reviewed the interface between the PeopleSoft payroll and the general ledger to verify that transactions were posted correctly;
- reviewed payroll calculations for accuracy;
- analyzed payroll transactions and balances to verify the propriety and compliance with Fair Labor Standards Act (FLSA) provisions; and,
- consulted with the City Attorney's Office regarding the legal interpretation of relevant sections of the Texas Local Government Code.

We conducted this audit in accordance with generally accepted government auditing standards, except for peer review[1]. 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 that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

[1] Government auditing standards require audit organizations to undergo an external peer review every three years. A peer review is planned in 2017 for the three-year period ending December 31, 2016.

We concluded that the ERP team successfully configured PeopleSoft to accurately perform Fair Labor Standards Act (FLSA) calculations. However, based on audit procedures conducted, we concluded that weaknesses within the internal control structure resulted in inaccurate payroll processing. These internal control weaknesses resulted in substantial overpayments and erroneous leave balances, implying a systematic control error.

Employee Over- and Underpayments

- Payroll overpayments, totaling $244,730, were identified. The overpayments resulted from errors in processing leave balance payouts to eight (8) Fire Department Civil Service employees assigned to a 40-hour shift. For these employees, the final leave balance hours were adjusted (increased); however, pay rates were not adjusted (decreased) as were legally required.

  The Department of Internal Audit identified $243,336 in overpayments. However, after being informed of these payroll processing errors, the City Attorney's Office identified one (1) additional overpayment. For this specific overpayment, the former employee's original terminal leave check (totaling approximately $24,000) was paid correctly. However, after the former employee was reinstated and later terminated, the employee's second terminal check (totaling approximately $4,900) was calculated incorrectly, resulting in a $1,394 overpayment. This $1,394 overpayment, combined with the $243,336 identified by Internal Audit, resulted in a total overpayment of $244,730.

  Another employee was involuntarily terminated, paid terminal leave, and then reinstated without the terminal leave balances being reduced by the amount previously paid.

- We also identified payroll overpayments (totaling $6,960) to 11 former general employees for hours reported after the employees' termination dates. Department HR Coordinators are required to process paper or electronic Personnel Action Requests (PARs) when employees are hired or terminated. However, in these instances of overpayment, PARs were not submitted and/or processed in a timely manner. The untimely submittal or processing of PARs resulted in former employees receiving pay for work reported and approved after the termination dates noted on the PARs. Department managers approved hours paid after termination for seven (7) of the 11 employees. Hours paid after termination of the remaining four (4) employees were mass-approved by HR.

- While non-exempt general employee pay cycles consist of 40 hours per week, Firefighter pay cycles are more complicated in that some consist of 212 work hours over a four-week period (two pay periods). Firefighter overtime is "built-in" to each Firefighter's shift, regardless of whether the overtime is worked during the first pay period. Any necessary adjustments are, therefore, required during the second pay period. Although the system automatically approved required FLSA calculation adjustments associated with overtime earnings codes such as Constant Staffing and Emergency Call Back, the system did not automatically mass approve necessary FLSA calculation adjustments associated with the Built-In overtime earnings code. Instead, manual (versus automated) approvals were required.

  We identified approximately $4,500 in overpayments to multiple employees due to the non-execution of prior period adjustments. The lack of required manual intervention to approve the prior period adjustments may have resulted from the department's concern that the system may not have accurately calculated the adjustment. It should be noted that the Fire and ITS Departments resolved this issue, during the audit, by initiating systematic mass approvals for Built-In overtime earnings

code credit adjustments. Also, management indicated that as of March 18, 2016, monies due had been recouped through payroll corrections or repayment plans.

The following pay advice examples depict the process with required FLSA adjustments. During the second week of the pay cycle, initial overtime entries (from the first two weeks) are reversed while recalculated overtime is added.

First Two-week Period of Payroll Cycle

HOURS AND EARNINGS			
Description	Rate	Current Hrs/Units	Earnings
Regular Earnings	23.73	100.00	2,372.86
Constant Staffing Ov	35.59	24.00	854.23
Emergency Call Back	35.59	22.00	783.04
Acting Pay Built-In	37.37	20.00	747.45
Acting Pay	1.19	8.00	9.49
Longevity Pay			56.00
Fire 125 Built In Ov			
Acting Pay Overtime			
Holiday			
Vacation			
Holiday Overtime Fir			
Retro Overtime			
Holiday Accrual Earn			
Total:			4,823.07

Second Two-week Period of Payroll Cycle

HOURS AND EARNINGS			
Description	Rate	Current Hrs/Units	Earnings
Regular Earnings	23.73	112.00	2,657.60
Constant Staffing Ov	35.59	-24.00	-854.23
Constant Staffing Ov	24.07	24.00	858.29
Emergency Call Back	24.07	22.00	786.76
Emergency Call Back	35.59	-22.00	-783.04
Acting Pay Built-In	24.07	20.00	738.97
Acting Pay Built-In	37.37	-20.00	-747.45
Acting Pay	1.19	4.00	4.75
Fire 125 Built In Ov			
Acting Pay Overtime			
Holiday			
Vacation			
Other			
Total:			2,661.65

Source: PeopleSoft system payroll advices

- Alternatively, we identified $4,814 in payroll underpayments. The $4,814 underpayments appear to have resulted from a combination of system processing and human errors. Approximately $4,649 was attributed to the failure to pay a retiring employee "old sick leave" hours, as required by Section 5.5 of the Personnel Rules & Regulations. City policy states that at the time of retirement, employees can be paid for up to 720 hours of old sick leave. Any accrued old sick leave above 720 hours is added to an employee's length of service for purposes of pension calculation. Another employee, whose pay rate toggled between pay periods, was underpaid $165 due to payment at the incorrect pay rate.

Hiring
- There were instances where individuals were hired and began work before corresponding PARs were submitted to Human Resources by the user department. The seasonal employees received payment for work performed, but did not receive a paycheck at the end of the pay period(s) in which they worked.

- Required U.S. Citizenship and Immigration Services Form I-9, Employment Eligibility Verification forms were missing for 9% of employee files randomly sampled. The forms were subsequently added to the files during audit fieldwork.

Time & Labor Mass Approval Process
Designated department payroll approvers must approve the time reported as worked by employees each pay period. If department managers do not approve hours reported by the payroll deadline, HR personnel must "mass-approve" the hours reported to ensure that employees are paid as required by law. We found that approximately four (4) to 10 percent of reported time, depending on the pay period, had to be "mass-approved" by HR personnel. During CY2014, HR personnel approved approximately 19,800 hours of employee overtime.

Unwarranted Increases in Leave Balances

We identified three (3) out of over 6,000 leave-eligible employees with significant leave balance errors. The errors included unsupported increases in vacation, holiday and sick leave balances totaling 1,904.20 hours. The erroneous leave balance increases for two of the employees appear to have resulted when the employees were moved to different pay groups within PeopleSoft.

Reported Hours in Excess of the Standard 80-hour Shift

We identified 20 employees who were paid for more than 80 hours of regular and/or leave hours in a single pay period. This represents a very small percentage of the employees and pay periods worked; however, it indicates inadequate follow up on reports distributed to departments for the purpose of detecting payroll errors.

Personnel Rules, Regulations and Standardized Forms

Some payroll practices do not comply with City policy. For example, although an October 2014 Payroll Advisory states that voluntary deduction vendors must maintain a minimum of 150 employees, we identified one vendor with only two employees using the deduction over a span of four months.

The City of Fort Worth's standard Out-Processing form is disorganized, outdated, and does not meet the business needs of the organization. For example, although the City no longer uses pay cards, the Out Processing form states that the final check will be paid by direct deposit or pay card. Also, the Voluntary Deduction form does not include a statement that deduction amounts may increase based on changes implemented by the service provider, without requiring an additional form to be completed.

Split Payroll Charge Errors

A PeopleSoft system issue resulted in the misallocation of payroll charges that were split between funds. These allocation errors were cited during the City's 2015 Single Audit.

Internal Audit reviewed payroll charges split between different funds, and found errors in retirement contribution, health insurance and Medicare expenses -- estimated at less than $20,000 for the months tested. Payroll charges were allocable to multiple funding sources for those employees who worked on different projects/grants throughout each pay period. Internal Audit concluded that although the allocation between funds was incorrect, the City's total cost for the expenses was correct.

Pay Advices

Payroll advices, generated within PeopleSoft, are complex and include numeric values that do not calculate as displayed. For example, approximately one-half of the City's pay rates are carried out to more than two decimal places. However, employee pay advices round pay rates to only two decimal places. The end result is a pay advice with a displayed earnings amount that does not calculate based on what is presented on the pay advice. The calculation differences are typically immaterial. However, these differences may cause employees to not trust the system.

Employee #1 Pay Advice shows higher than rate paid	Rounded Rate:

HOURS AND EARNINGS				Rounded Rate: $25.8800 x 80 = $2,070.40
	-------	**Current**	-------------	**Rate Paid:**
Description	**Rate**	**Hrs/Units**	**Earnings**	$25.8752 x 80 = $2,070.02
Regular Earnings	25.88	80.00	2,070.02	**Difference:** $0.38

Employee #2 Pay Advice shows lower than rate paid.	

HOURS AND EARNINGS				Rounded Rate: $25.8500 x 80 = $2,068.00
	-------	**Current**	-------------	**Rate Paid:**
Description	**Rate**	**Hrs/Units**	**Earnings**	$25.8545 x 80 = $2,068.36
Regular Earnings	25.85	80.00	2,068.36	**Difference:** <$0.36>

Source: PeopleSoft payroll system

Avoidable Unemployment Insurance Costs
It was brought to Internal Audit's attention that the City is incurring avoidable unemployment insurance costs related to employed school crossing guards. The guards are considered seasonal employees who are terminated at the end of each school year and then later rehired. According to information provided by the Texas Workforce Commission, school districts are not required to pay unemployment insurance costs when crossing guards are employed by a school district. During the exit conference, management indicated that this issue is currently being discussed.

High	Medium	Low
Terminal leave overpayments and underpayments		
Untimely reporting of employee hiring and termination		
Inconsistent managerial review of payroll hours		
Leave balance accrual errors		
80+ hours of regular, vacation, holiday or sick hours per 80-hour work cycle		
	Current practice inconsistent with personnel policies	
	Unclear and/or incomplete HR Out-Processing Form	
	Inaccurately charged employer contributions for employees with split payroll charges	
	Rate displayed on pay advice not calculating correctly, although pay is accurately calculated	

Detailed Audit Findings

1. **Terminating employees were overpaid $244,730 and underpaid $4,814 on their terminal leave payroll checks.**

During testing of terminal leave balance payments (i.e., unused vacation, holiday, and sick leave), $244,730 was identified in overpayments and $4,814 in underpayments.

*   A total of $193,921 was overpaid during CY2013, none during CY2014 and $50,809 during CY2015. The overpayments were made on terminal payroll checks paid to nine (9) Fire Civil Service employees who were assigned to the 40-hour schedule prior to termination. Since some Firefighters work a 40-hour shift and others work a 56-hour shift, leave balances for 40-hour shift Fire Civil Service personnel are converted to the equivalent 56-hour shift balances upon termination, based on a legal interpretation of Local Government Code Chapter 143.

    To comply with the Local Government Code, pay rates are divided by a factor of 1.4, and the leave balance is multiplied by a factor of 1.5 to achieve parity in the annual earnings and the number of days leave accrued for the two different shifts. In the instances noted above, leave balances were properly increased, but pay rates were not decreased, resulting in overpayments. It should be noted that in the majority of cases, final leave balances for 40-hour shift Fire personnel were paid correctly.

    The following chart depicts how 40-hour Full Time Equivalent (FTE) and 56-hour FTE schedules use different pay and leave accrual rates to compensate for the differences in hours worked. As noted below, the annual salaries remain the same for both schedules.

	40-hour work week	**56-hour work week**	**Adjustment Factor**
Annual Salary	2,080 hours/year x $ 14.00 per hour **$29,120.00 per year**	2,912 hours/year x $ 10.00 per hour **$29,120.00 per year**	1.4*
Paid Leave	4.62 hours/pay period x 26 pay periods per year **120.12 hours per year**	6.93 hours/pay period x 26 pay periods per year **180.18 hours per year**	1.5**
Leave Days, Per Year	**120.12/8hrs = 15 days**	**180.18/12hrs = 15 days**	

* $14.00 / 1.4 = $10.00   ** 120.12 x 1.5 = 180.18

Throughout the audit, and subsequent to audit fieldwork, the Department of Internal Audit conversed with employees within the Finance, Fire, HR, and ITS Departments. We also reviewed PeopleSoft system tables and manual processes to identify pay rate changes, leave balances, and other payroll data, but did not identify the source of the overpayment errors. We did note, within the ERP issues/tasks historical listing, a request to develop an automated process in PeopleSoft to convert leave balances from Fire-40 to Fire-56. The request notes indicate that HR and IT personnel understood the significance of the issue; however, there does not appear to have been an adequate resolution. Prior to the release of this audit, ITS indicated that required pay rate adjustments are systematically, versus manually, processed – implying a system error.

We found that one of the overpaid employees was involuntarily terminated, but later reinstated by the Civil Service Commission. That employee was paid $31,643 in terminal leave, $9,041 of which was overpaid due to the hourly rate not being adjusted as required. The remaining amount represents leave balances which, upon the employee's reinstatement, were restored (although already paid upon termination) to the balances prior to termination, plus accrued leave for the term of the suspension.

- A total of $4,814 was underpaid to general employees during CY2013 and CY2015. We determined that $4,649 of the $4,814 in underpayments resulted from a failure to include all accrued and payable leave balances in one employee's terminal leave payment. The remaining $165 resulted from an incorrect pay rate. Internal Audit was unable to determine why this particular employee's pay rate toggled between pay periods.

Recommendation 1A: *The Chief Technology Officer should ensure that adequate and sufficient audit trails exist to log all changes to system data (i.e., user i.d., date and time stamps, basis for the change, etc.). Audit trail logs should be made available and reviewed on a regular basis. Any error-related entries should be investigated and resolved, including the turning on or off the "audit trail switch."*

Auditee's Response: Partially Concur. The Chief Technology Officer has reviewed existing audit trails in the system and will adjust as appropriate. In addition, associated retention periods of this data will be reviewed with the Chief Financial Officer and the Human Resources Director to ensure that they are available for audits and research as appropriate.

> **Target Implementation Date:** June 1, 2016 – Initiate Project included with PeopleSoft Human Capital Management 9.2 Upgrade

> **Responsibility:** Chief Technology Officer/Chief Financial Officer/Human Resources Director

Audit Comment: During and after audit fieldwork, Internal Audit met with ITS, HR and Finance staff to identify the cause for the overpayments. ITS categorized the overpayments into the following three categories, but was unable to identify the cause of the second scenario with certainty. ITS staff informed the Department of Internal Audit that until the most recent two pay cycles (immediately preceding a March 14, 2016 meeting), there was no logging of the process that modified the pay rate in this particular circumstance.

Scenario 1	PeopleSoft did not create terminal pay lines, so the process had to be performed manually. However, term rates were not manually updated as was required.
Scenario 2	PeopleSoft did not correctly set the pay rate at termination. No definitive cause was identified (by HR, ITS or Internal Audit).
Scenario 3	Special termination circumstances resulted in PeopleSoft not being able to determine the appropriate payout for one employee.

Internal Audit acknowledges that certain transactions and events were being logged within PeopleSoft, including most rate changes. However, the specific process involved in these particular rate changes was not logged. Adequacy of audit trails and logs, including changes to data such as pay rates, is critical in helping to confirm the authenticity and integrity of transactions. It is pertinent that audit trails maintain a record of system activity (by both system and application processes) and by user activity.

Recommendation 1B: *The Human Resources Director should implement an enhanced review process that requires managerial review of payment calculations for all terminal leave balance payments over a specified amount.*

Auditee's Response: Partially Concur. The overpayments identified in this audit were limited to Fire Fighter terminal leave due to the complexities of how their leave balances and rates of pay are calculated. Human Resources will coordinate with Financial Management Services to create a process to review the terminal leave balance payments for this particular group rather than for all payments above a certain threshold.

   Target Implementation Date: June 1, 2016

   Responsibility: Human Resources Director

Audit Comment: While the majority of exceptions noted (9 of 11) were limited to Fire Fighters, we did identify two terminal leave payment errors ($4,814) to general employees.

Recommendation 1C: *The Human Resources Director should ensure that procedures for leave and pay rate conversions are included in a Payroll Advisory, Personnel Rules, and labor contracts. Amendments to written directives should then be clearly communicated to City staff.*

Auditee's Response: Partially Concur. Human Resources will coordinate with the City Attorney's Office to ensure procedures for the 40-hour to 56-hour conversion will be published in the next revision of Personnel Rules and Regulations. It is not necessary to include this provision in the Fire Collective Bargaining Agreement because the practice would be consistent with the Personnel Rules and Regulations and is not in dispute. In addition, a Payroll Advisory is unnecessary since it will be incorporated into the Personnel Rules and Regulations and the process is managed in Human Resources.

   Target Implementation Date: June 1, 2016

   Responsibility: Human Resources Director/Chief Financial Officer

Recommendation 1D*: The City Manager, in conjunction with the Human Resources Director, should determine whether a reimbursement of the overpayment and/or an equivalent leave balance adjustment is required from the reinstated employee who received an overpayment, plus had terminal leave restored that had already been paid.*

Auditee's Response: Concur. Upon direction of the City Manager, Human Resources has adjusted the employee's leave balance and will work out a repayment schedule from the employee within the next 15 days.

   Target Implementation Date: April 1, 2016

   Responsibility: Human Resources Director and City Manager

Recommendation 1E: *The City Manager, in conjunction with the City Attorney, should consider the proper recourse concerning termination payments that resulted in overpayments to former employees due to the incorrect use of the 1.4 adjusting factor.*

Auditee's Response: Concur. The City Manager and the City Attorney have developed an overpayment recovery plan and contacted the former employees during the week of March 21. Recovery of funds is in process and we expect to conclude the effort by June 1.

> **Target Implementation Date:** June 1, 2016

> **Responsibility:** Assistant City Manager

Recommendation 1F: *The Human Resources Director, in conjunction with the applicable user departments, should initiate a process to pay the underpaid former employees monies for which they were due.*

Auditee's Response: Concur. The Human Resources Director has identified the employees involved and has initiated notification and payment.

> **Target Implementation Date:** April 1, 2016

> **Responsibility:** Human Resources Director

2. **Former City employees were paid salaries and benefits subsequent to their termination date.**

The City's payroll advisory *Personnel Action Requests* (PAR) states that the employee should not be paid for time after their termination effective date.

➤ We identified 11 employees (noted in the following chart) who were paid a total of $6,960 for 415.75 hours approved after their termination date recorded in the PeopleSoft system.

➤ We identified seven (7) other employees paid after termination. However, those overpayments were detected and corrected before the terminal leave was paid.

➤ We also identified seasonal employees who were hired and performed work for the City before their hiring was processed within the PeopleSoft system.

Job Code Description	Effective Termination Date	PAR Received HR	PAR Processed HR	# of Working Days from Term	# of Working Days HR to process
Public Safety Communicator	1/13/2013	2/5/2013	2/7/2013	17	3
Deputy City Marshal	7/3/2013	7/18/2013	7/25/2013	12	6
Property Control Specialist	7/10/2013	7/17/2013	7/25/2013	6	7
Airport Operations Officer	8/6/2013	8/19/2013	8/22/2013	10	4
Sr Data Reporting Technician	12/7/2013	12/16/2013	12/26/2013	6	8
Public Safety Communicator	2/18/2014	2/21/2014	3/6/2014	4	10
Community Center Aide	6/11/2014	N/A	7/9/2014	20	1
Community Center Aide	7/19/2014	8/18/2014	8/21/2014	21	4
Community Center Aide	7/26/2014	N/A	8/21/2014	19	1
Code Compliance Officer	9/30/2014	N/A	10/16/2014	13	1
Airport Operations Officer	10/25/2014	N/A	11/20/2014	19	1

Source: PeopleSoft and PARs

Per termination processing procedures, departments are responsible for submitting PARs for employees who terminate during a pay period or who terminate at the end of a pay period. An October 8, 2014 Payroll Advisory regarding PARs, states that all PARs should be submitted to HR Records one week

prior to the effective date on the PAR. The advisory also states that termination requests must be received by 5:00 PM on Wednesday of the non-payroll week.

Payments after termination date were made possible due to the failure of two separate controls:

- Departments did not submit PARs in a timely manner. As noted in the preceding table, we identified PARs submitted several days or weeks beyond employee termination dates.

- Departmental managers failed to identify that the terminated employee had time reported in the PeopleSoft system, or failed to review and reject the reported hours. As noted in Finding #3, scheduled/reported time is "mass-approved" when action is not taken by department managers.

Having employees work before their documents have been processed exposes the City to liability, including work performed without payment.

Recommendation 2A: *The City Manager, in conjunction with the City Attorney, should determine the proper recourse regarding the $6,960 of overpayments for time reported after employee termination dates.*

Auditee's Response: Concur. The City sent demand letters to the last known address of these former employees during the week of March 21. Recovery of funds is underway and we expect to conclude the effort by June 1.

    Target Implementation Date: June 1, 2016

    Responsibility: Assistant City Manager/Human Resources Director

Recommendation 2B: *The City Manager should reiterate to all Department Heads, the significance of submitting ePARs in a timely manner and should require the Chief Technology Officer to develop a report to periodically identify failure to submit ePARs timely.*

Auditee's Response: Partially Concur. The City Manager will remind Department Heads to manage ePARS in a timely manner in their departments. Rather than initiate new reports, the Chief Technology Officer will collaborate with the Human Resources Director to refine/consolidate the existing reports to include appropriate information for departmental staff to monitor payroll issues. In addition, additional training will be administered.

    Target Implementation Date: May 1, 2016 – Initiate Project

    Responsibility: Chief Technology Officer/Chief Financial Officer/Human Resources Director

3. Payroll hours are not consistently reviewed and approved by department managers.

Management validation and approval of payroll is a critical payroll control. Although management approval cannot prevent all time reporting errors such as collusion, in most cases, management approval is an effective payroll control when performed consistently.

An employee's supervisor is in the best position to know whether an employee worked or was absent. However, managers failed to approve approximately four (4) to 10 percent of all employees' recorded hours worked in CY2014. When managers failed to approve payable time by the payroll deadline, HR personnel mass-approved time reported, so that employees would be paid. Managers may fail to approve

reported time due to the failure to designate a backup approver, failure to monitor time adequately, or because they know that employees will be paid, whether or not the time is approved. Additionally, managers may not always be aware that an additional review and approval is needed because of subsequent changes made to payable time initially submitted to the manager for approval.

Management's failure to review and approve reported time worked may result in errors in reported time. Although the Department of Internal Audit is not suggesting that the mass approval function be deactivated, the failure by managers to approve time increases the possibility that employees will be paid for hours that they did not work. It is not possible to quantify the resulting potential error amount, because it is not possible to know whether employees worked the hours mass-approved by HR personnel. It should be noted that we did not detect payments made for work not performed.

Recommendation 3A: *The Human Resources Director, in conjunction with the Chief Technology Officer, should develop reports that list employees with time paid but not approved by management each pay period. The report should list the managers who failed to approve time and the employees without the manager's time approval. The report should be provided to each Department Head or to each Department Head's designee for corrective action.*

Auditee's Response: Partially Concur. Human Resources, in conjunction with ITS, will work with Departments to determine any gaps or consolidation needed in the nine (9) time and labor exception reports currently available to department timekeepers and management. If a determination is made that additional reports are needed, the Chief Technology Officer will collaborate with the Human Resources Director to:

   a. Develop requirements for the required report to include data, reporting periods, delivery periods, recipients of the report, etc.

   b. Develop and deliver identified report as required.

   Target Implementation Date: May 1, 20116 – Complete review of current reports
   June 1, 2016 – Initiate project for any additional reporting needed

   Responsibility: Human Resources Director/Chief Technology Officer

Recommendation 3B: *The Human Resources Director, in conjunction with the Chief Technology Officer, should forward information to the appropriate Assistant City Manager when there are repeated instances of non-approval by designated managers.*

Auditee's Response: Partially Concur. Human Resources will coordinate with the Chief Technology Officer to develop notification to Department Heads of Managers that have repeated instances of non-approval. Human Resources has created a tracking ticket for this item.

   Target Implementation Date: May 1, 2016 – Initiate Project
   June 1, 2016 – Estimated Project Completion

   Responsibility: Human Resources Director/Chief Technology Officer

4. Unwarranted increases in leave balance accruals were identified

Three (3) active employees received unwarranted increases in vacation, holiday and/or sick leave balances. In most cases, the increase (a total of 1,904.20 hours) appears to have resulted when the employees were moved to different pay groups within the PeopleSoft system.

Personnel Rules & Regulations and labor contracts specify authorized leave balance increases for each pay period based on employee tenure and job classification. The large unsupported increases in leave balances, if uncorrected, could result in the City paying for leave that was not earned by the employee. The following chart depicts leave balance accruals that were questioned by Internal Audit.

			Per Pay Period				
Count	**Employee Job Title**	**Leave Type**	**Authorized Accrual**	**Hours Increase**	**Accrual Date**	**Unwarranted Increase in Hours**	**Value of Unwarranted Increase in Hours**
1	Human Relations Specialist	Vacation	2.31	229.67	02/06/15	227.36	$5,959.11
1	Human Relations Specialist	Sick	0.62	38.13	02/06/15	37.51	$983.14
2	Fire Lieutenant	Vacation	7.08	127.08	01/24/14	120.00	$4,357.20
3	Fire Engineer	Vacation	7.85	359.29	02/08/13	351.44	$8,374.82
3	Fire Engineer	Holiday	N/A	77.00	02/08/13	77.00	$1,834.91
3	Fire Engineer	Sick	6.93	1,097.82	02/08/13	1,090.89	$25,995.91
	Total					1,904.20	$47,505.08

Vacation & Sick Leave Accrual Errors

Source: PeopleSoft database

The following chart shows information displayed on current payroll advices. The display of leave on the payroll advice makes it difficult to identify balance errors. For example, the payroll advice does not include the beginning leave balances or any information about the changes in leave balances during the pay period.

Current Payroll Advice Leave Balance Section

Leave Plan	Balance	Use Or Lose	By Date			
Vacation	956.34				**NET PAY DISTRIBUTION**	
Personal Holiday	8.00	8.00	12/31/2015			
Holiday Accrual	24.00			Advice #:	868359	$1,132.66
ST Sick/Family	452.74					
Major Medical	2110.40					

Source: PeopleSoft Payroll advice files

Recommendation 4A: *The Chief Technology Officer, in conjunction with the Human Resources Director, should coordinate corrections to leave balance errors.*

Auditee's Response: Concur. The report identified three (3) employees with unexpected leave balance increases. Human Resources has communicated with the employees and corrected the leave balances.

    Target Implementation Date: Completed

    Responsibility: Human Resources Director/Chief Technology Officer

Recommendation 4B: *The Human Resources Director, in conjunction with the Chief Technology Officer, should direct the development of reports that identify increases or decreases in leave balances*

that contradict authorized leave balance accrual rates. Identified errors should be corrected immediately.

Auditee's Response: Partially Concur. Human Resources, in conjunction with ITS, will work with Departments to determine any gaps or consolidation needed in the nine payroll exception reports currently available to department timekeepers and management. If a determination is made that additional reports are needed, the Chief Technology Officer will collaborate with the Human Resources Director to:

a. Develop requirements for the required report to include data, reporting periods, delivery periods, recipients of the report, etc.

b. Develop and deliver identified report as required.

Target Implementation Date: May 1, 2016 – Complete review of current reports
June 1, 2016 – Initiate project for any additional reporting needed

Responsibility: Human Resources Director/Chief Technology Officer

Recommendation 4C: *The Chief Technology Officer should consider modifying the payroll advice to include the previous (beginning) leave balances, the change in leave balances, and the ending balances.*

Auditee's Response: Concur. The Chief Technology Officer will review the current payroll advice format and information with the Chief Financial Officer and Human Resources Director to determine what changes are needed and/or feasible.

Target Implementation Date: June 1, 2016 – Initiate Project included with PeopleSoft Human
Capital Management 9.2 Upgrade

Responsibility: Chief Technology Officer/Chief Financial Officer/Human Resources Director

5. Some general employees had more than 80 regular, vacation, holiday and/or sick hours reported during an 80-hour work cycle.

We identified 20 employees who were paid for more than 80 hours of combined regular, vacation, sick, and/or holiday pay during a pay period. As a result, time was reported incorrectly.

Per PRRs for general employees, work time (hours worked) must be recorded exactly as it is worked. The dates worked and the number of work hours recorded each day, must accurately reflect employee hours worked and leave used.

Exception reports are available to department timekeepers for identifying exceptions to standard hours. However, based on these exceptions found, departmental timekeepers do not appear to be consistently reviewing exception reports or correcting the exceptions identified by the reports.

During the audit, the generation of exception reports was moved earlier within the pay cycle in an effort to reduce corrections. This practice may reduce the number or errors in the future.

Recommendation 5: *The Human Resources Director, in conjunction with the Chief Technology Officer, should develop reports listing uncorrected payroll errors, and provide the reports to department managers for follow up.*

Auditee's Response: Partially Concur. Human Resources, in conjunction with ITS, will work with Departments to determine any gaps or consolidation needed in the nine payroll exception reports currently available to department timekeepers and management. If a determination is made that additional reports are needed, the Chief Technology Officer will collaborate with the Human Resources Director to:

a. Develop requirements for the required report to include data, reporting periods, delivery periods, recipients of the report, etc.
b. Develop and deliver identified report as required.

Target Implementation Date: May 1, 2016 – Complete Review of current reports
June 1, 2016 – Initiate Project for any additional reporting needed

Responsibility: Human Resources Director/Chief Technology Officer

6. Personnel practices are inconsistent with current policies.

Personnel practices should be consistent with current policies. Per a Payroll Advisory issued on October 8, 2014, payroll deductions are available to pay membership dues for employee organizations, associations and other City-offered services. However, personnel rules and advisories are not consistent with current practice and do not cover specific events.

➢ Policies state that automatic payroll deductions are available to outside vendors if more than 200 employees request the deduction and at least 150 employees use the deduction for it to be retained. However, we identified deductions with significantly fewer than 20 employees. One vendor, Fit-for-Life, had only two employees.

➢ Personnel Rules & Regulations, governing Civil Service Police employee shift differential, are not consistent with the requirements of the labor contract. However, Internal Audit concluded that payments were consistent with the labor contract, based on the contract preemption clause.

Inconsistent policies may confuse City employees or vendors. Furthermore, practices that are inconsistent with governing policies warrant questioning the relevance of the particular policy.

Recommendation 6: *The Human Resources Director, in conjunction with the Chief Financial Officer, should enforce, remove, or revise the current policies.*

Auditee's Response: Concur.

Payroll Deductions - Payroll deductions will be limited to employee associations of any size, as allowed by policy. However, staff will review the smaller associations to confirm that they hold regular meetings and have a current charter to determine if continuation is appropriate. The charitable donation organization with two members will be terminated. The YMCA is being shifted to the City's Beneplace platform for voluntary services and programs.

Shift Differential - Upon the next revision of the Civil Service Personnel Rules and Regulations, the shift-differential will be updated to reflect the new practice established in the current labor agreement.

Target Implementation Date: May 1, 2016

Responsibility: Human Resources Director

7. **The Out-Processing and Voluntary Deduction forms lack clarity and are incomplete.**

Although HR forms should be well organized and consistent with the business needs of the organization, the employee Out-Processing Form is not well organized and includes incorrect information. On December 7, 2015, HR made a revision to add a requirement to return City-issued procurement cards, but overall the form remained the same.

- The form compiles various termination related requirements, but the required calculations do not flow logically.

- The form includes a paragraph related to tuition reimbursement that repeats PRR information versus presenting tuition reimbursement information in a checklist format.

- The repayment line item amounts are not clear and make it difficult to follow and complete.

- The form has an inaccurate statement on how the final paycheck will be issued.

The Voluntary Deduction form does not include a statement that deductions are provided as a convenience to employees and that the City is not responsible for the use of funds after they are transferred to the deduction vendor.

HR is ultimately responsible for updating and revising forms so that the forms are up to date, brief, and contain pertinent information. HR management may not have a formal plan in place that will alert them when a specific form is scheduled for review. The use of outdated forms in need of revision exposes the City to potential risk in out-processing employees.

Recommendation 7: *The Human Resources Director should update and revise HR forms for clarity, completeness, and usefulness.*

Auditee's Response: Concur. Both the Out-Processing form and Voluntary Deduction form have now been revised and have been re-posted. Human Resources will initiate an annual review of forms to ensure they remain current.

Target Implementation Date: Identified forms have been revised.
Review of other forms will be conducted over the next 90 days.

Responsibility: Human Resources Director

8. **Errors were identified in payroll charges (employer contributions) split between funds.**

Approximately 500 employees, who work on different project/grants each pay period, have payroll charges split between funds because the employees' positions are funded from multiple funding sources. Related benefits should be split or allocated to funds in a manner that is consistent with the payroll charges.

Payroll charges (employer contributions) were misallocated to funds due to a PeopleSoft system modification in FY2015 that does not appear to have been thoroughly tested. The charge allocation errors are estimated at less than $20,000, based on a review of transaction data during the period in which the error occurred. Based on a review of FY2016 data, the system error appears to have been resolved. It should be noted that although fund allocations were incorrect, the totals were correct.

Recommendation 8A: *The Chief Financial Officer, in conjunction with the Chief Technology Officer, should coordinate the development of system reports to identify erroneously applied payroll expenses each pay period.*

Auditee's Response: Concur. The issue of split payroll charges was remedied prior to the start of FY2016. The data was fixed with the application of the 2016 department budget table.

In addition to the actions already taken, the Department of Information Technology Services (ITS) will create a control report to monitor the "override" indicator flag. The report will list all employees affected by the override in addition to showing whether the override has been activated. This report will be reviewed by the ITS Department, the Finance Department/Payroll Division, the Finance Department/Grant Division, and the Department Head of the affected employees.

　　Target Implementation Date: Corrections and system changes are complete
　　　　　　　　　　　　　　July 1, 2016 – Initiate Project for reports

　　Responsibility: Chief Financial Officer/Chief Technology Officer

Recommendation 8B: *The Chief Technology Officer should ensure that adequate testing procedures are in place and that the PeopleSoft system is thoroughly tested, including a review by other departments before system modifications are implemented.*

Auditee's Response: Partially Concur. Finance, Human Resources, and Information Technology Solutions staff perform substantial testing of system changes prior to placing code modifications into the production system. Efforts include code testing, module testing and end-to-end system testing. However, PeopleSoft Change Control Processes were reviewed and updated in January 2016 that address some of the items identified in this report. In addition, the ERP team recommends procurement of an automated testing solution that will increase the speed and volume of efforts to ensure thorough testing of changes to the PeopleSoft system.

　　Target Implementation Date: Complete

　　Responsibility: Chief Technology Officer

9. Employee pay advices do not accurately display the basis for the gross pay calculation.

Payroll advices should accurately display gross pay calculations, which would result by multiplying the displayed pay rate by the number of hours displayed on the pay advice.

Approximately one-half of City employees have pay rates with more than two decimal places. The PeopleSoft system, therefore, accordingly captures more than two decimal pay rates. However, PDF pay advices, generated from PeopleSoft, do not display more than two decimal pay rates. As a result, total hours worked multiplied by the displayed rates do not equal the gross pay displayed on the pay advices. In addition, payroll advices do not always display the rates used in the calculations, as noted in the following payroll advice example. It should be noted that the gross pay calculated is correct based on the number of decimal places used in the calculation.

Pay Rate with More than Two Decimal Places

Source: PeopleSoft payroll advices

Recommendation 9: *The Human Resources Director, in conjunction with the Chief Technology Officer, should require that pay rates be modified to include only two decimal places, where appropriate. Alternatively, payroll advices should be modified to display all of the decimal places used in the payroll calculation.*

Auditee's Response: Concur. Staff recommends retaining four decimal places but agrees with the alternative to consider modifying the payroll advice to include four decimal points. Human Resources has created a tracking ticket for this item.

> **Target Implementation Date**: June 1, 2016 – Initiate Project included with PeopleSoft Human Capital Management 9.2 Upgrade

> **Responsibility:** Human Resources Director/Chief Technology Officer/Chief Financial Officer

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