

- ***The payroll supervisor and the timekeeper will be required to attend payroll training and PPUG meetings. (HR has contacted Payroll to arrange training for current staff – Payroll has advised that training will not be available until the ROSS payroll upgrade goes live in March 2003)."***

1. HRD SHOULD PROVIDE SEPARATION OF PAYROLL DUTIES.

The concept of separation of duties is based on the need to separate custodial responsibility, accounting responsibility, and operational responsibility. This approach provides a system of checks on the competency and integrity of personnel, because it is not possible for a single individual to control a transaction without creating a need for review. Good internal controls require that one employee should not record payroll transactions, reconcile leave records, and have physical control of payroll checks.

The HRD timekeeper is the only employee assigned to reconcile the manual record of leave balances forms (P-29s) to the automated payroll system records. The P-29 is used to record leave earned and leave used and remaining balances for both sick leave and vacation leave for each employee. The timekeeper was unaware that a different person should reconcile these records. This could cause incorrect information to be entered into the automated payroll system records without it being detected. Also, employees could be underpaid or overpaid in relation to their leave accruals and leave balances. We found one P-29 whose balance did not agree with the balance reflected on the leave balance on the Ross Payroll System. The manual P-29 showed a vacation leave balance of 7.15 hours more than was reflected on the employee leave balance maintained on the automated payroll system.

HRD currently maintains its P-29s manually on paper forms. According to DFAS Accounting Division personnel, the City requires that P-29s be maintained on the automated payroll system. Manual P-29s should no longer be maintained. This item was presented at the Payroll/Personnel User Group meeting on July 18, 2001.

The timekeeper is authorized to pick-up payroll checks from the Treasury Division. The timekeeper does not normally pick-up the payroll checks, but acts as an alternate in case the person who picks up the checks is unable to do so. Good internal controls require that the same employee should not be responsible for recording payroll transactions, reconciling leave records, and having physical control of payroll checks.

RECOMMENDATION

HRD should assign payroll duties to more than one employee to ensure a separation of duties. HRD management should assign an employee other than the timekeeper to reconcile employees' leave balances on the payroll system.

HRD should maintain the Department's P-29s on the automated payroll system.

HRD should rescind the timekeeper's authorization to pick-up payroll checks from the Treasury Division. HRD should assign an employee who does not have entry access to the automated payroll system as the alternate for picking up payroll checks.

#### EXECUTIVE RESPONSE FROM HRD

***“The Human Resources Department is in agreement with IA’s recommendation that separation of payroll duties should be provided.***

- ***The payroll supervisor will be reviewing all aspects of the payroll process including checking payroll forms for accuracy and reconciling all payroll forms against the payroll proof report/TCD. The payroll supervisor will follow the same review process to reconcile and verify employee leave balances.***
- ***HRD is currently maintaining department P-29’s on the automated payroll system, but has also maintained hard copy P-29’s.***
- ***As recommended by IA, HRD has rescinded the timekeeper’s authorization to pick up payroll checks from the Treasury Division. HRD now has an employee and alternate who do not have access to the automated payroll system authorized to pick up payroll checks.”***

CONCERNING UNCLASSIFIED EMPLOYEES GOING BACK TO CLASSIFIED SERVICE.

An HRD classified employee was appointed to an unclassified position. This employee's pay was increased when the employee was assigned to the unclassified position. Later, the employee was returned to the classified position in accordance with the City's Personnel Rules and Regulations. The Personnel Rules and Regulations, Paragraph 102.6 states, "Employees who have held a classified position with the City for more than ten (10) years prior to serving in an unclassified position will be allowed to return to a vacant classified position. The Chief Administrative Officer will determine the specific position to which the employee will be returned."

The regulation does not address the issue of the employees' pay rates, when they return to classified positions. The employee in this instance was given an increase in pay when she was appointed into the unclassified position. When the employee returned to classified service her pay rate stayed the same. The employee is a grade M18 with an hourly rate of pay of \$38.47. The top pay for grade M-18 is \$37.98 per hour. The employee's unclassified pay rate exceeded the highest pay for the employee's classified position's pay grade.

In several cases, previously unclassified employees have accepted classified positions. The employees continued to be paid at the rate for the unclassified positions although their new classified positions did not have the same level of responsibility. These employees are at the high end of the pay range for their classifications or exceed the top pay rate. This is costly to the City both in terms of increased salary costs and employee moral. In some cases other qualified employees were not given the opportunity to bid on these positions. This issue will likely continue as other unclassified employees move into classified positions.

RECOMMENDATION

The CAO should establish standards for determining the rate of pay for employees returning to classified positions or entering classified service after serving in unclassified positions. This should be included in the Personnel Rules and Regulations.

EXECUTIVE RESPONSE FROM CAO

***"The CAO is in agreement with IA's recommendation that standards for the rate of pay for employees returning to classified positions or entering classified service after serving in unclassified positions should be established. When an employee returns to***

*classified service his/her compensation should be commensurate to the duties of the position to which he/she returns. An unclassified employee entering classified service should fall within the pay range appropriate to the grade level and function as defined in the appropriate City pay plan. HR will draft a procedure for the CAO's approval that will be included in the Personnel Rules & Regulations."*

3. SOME TIMESHEETS FOR EMPLOYEES SUBJECT TO FLSA DID NOT MEET RECORDKEEPING REQUIREMENTS AS DEFINED BY FLSA REGULATIONS.

Recordkeeping Requirements Under the Fair Labor Standards Act, state, in part, "with respect to employees subject to the FLSA's minimum wage and overtime provisions, the following records are required (29 C.F.R. paragraph 516.2): hours worked each workday and total hours worked each workweek (29 C.F.R. Paragraph (2)(7))."

Some HRD employees who are not exempt from FLSA are completing timesheets that show exceptions to the regular workweek (exception reports). FLSA non-exempt employees should be recording the actual time that they work each day including any absences on a timesheet or timecard.

In our review of documentation for the pay period ended March 22, 2002, we found two instances where the hours worked and leave taken were not indicated on employee's timesheets. Instead, an "X" was used to indicate an exception to the normal workday. It was left to the timekeeper to determine what hours were worked and what hours were taken as leave. The timesheet should clearly indicate the number of hours the employee worked as required by FLSA.

RECOMMENDATION

HRD should require all non-exempt employees to complete a timesheet or timecard showing the actual hours worked.

HRD should not accept timesheets that are not properly completed in accordance with Federal, State and City requirements.

EXECUTIVE RESPONSE FROM HRD

*"HRD has reviewed the proper method for completing time sheets*

*with division managers and at HR staff meetings.*

- *HRD shall ensure that all non-exempt employees are required to complete a timesheet showing the actual hours worked.*
- *The payroll supervisor will review timesheets to ensure that non-exempt employees are recording the actual time worked each day including any absences and will not accept any timesheet that is not properly completed in accordance with Federal, State and City requirements.”*

4. HRD SHOULD ROUTINELY REVIEW PAYROLL OVERRIDE REPORTS.

Each employee is charged to a specific cost center as part of the payroll process. However, this charge can be changed or overridden and charged to a different cost center. A review was made of the general ledger account overrides to determine if employees' time was charged to a cost center other than HRD.

HRD had an agreement with the Albuquerque Police Department (APD) to have HRD charge APD for an employee who performs testing for police officer applicants. This employee was not being charged back to APD as agreed. For fiscal year 2002 the personnel costs including benefits for the employee were approximately \$38,000.

We found three HRD employees whose payroll costs were being overridden from their cost center back to the same cost centers. This is an unnecessary step that is an ineffective use of City resources.

RECOMMENDATION

The HRD payroll supervisor should review payroll cost center overrides and other reports periodically to ensure that the payroll function is operating as intended.

HRD management should ensure that the override for the employee who performs testing for APD is properly charged to the correct cost center.

EXECUTIVE RESPONSE FROM HRD

*“HRD is in agreement with IA’s recommendation that periodic review of cost center overrides and other reports should be*

*conducted to ensure employee payroll costs are charged to the appropriate cost center.*

- *The payroll supervisor will review all payroll exception reports prior to the last payroll download so that any necessary corrections are made.*
- *The funding for the Testing Analyst was moved to the HR in the fiscal year 2003 budget.”*

5. MANAGERIAL LEAVE SHOULD BE AWARDED IN ACCORDANCE WITH CITY PERSONNEL RULES AND REGULATIONS.

Paragraph 402.7 of the City Personnel Rules and Regulations states, “Managerial leave is not intended to compensate salaried employees on an hour-for-hour basis for work performed in addition to and/or outside of their regular work schedules.” HRD’s approved Managerial Leave Plan states, in paragraph 3, “Managerial Leave will not be granted on an hour-for-hour basis for time worked under this plan.”

On July 27, 2001, a former Deputy Chief Administrative Officer (DCAO) gave written approval for three HRD employees to earn managerial leave for working on a special project. According to an email sent to the HRD Director by one of the employees, the DCAO gave verbal approval for the three employees to earn managerial leave on an hour-for-hour basis. The three employees were allowed to accrue managerial leave on an hour-for-hour basis, based on the verbal approval of a DCAO, although all of the individuals involved were aware that this was in violation of both the City Personnel Rules and Regulations and the approved Department Managerial Leave Plan. During the period from July 27, 2001 through December 31, 2001, one of the three employees earned a total of 119.45 hours of managerial leave.

RECOMMENDATION

HRD management should only award managerial leave in accordance with the City’s Personnel Rules and Regulations and the Department’s approved plan.

EXECUTIVE RESPONSE FROM HRD

*“HRD is in agreement with IA’s recommendation that managerial leave should be awarded in accordance with the City’s Personnel Rules and Regulations and the Department’s approved plan. The*

***HR Director was approached early in this administration by one of the employees who had previously been granted managerial leave on an hour-for-hour basis. That employee, and all HR exempt employees have been advised on numerous occasions that managerial leave is not and will not be granted on an hour-for-hour basis. While HRD has an existing managerial leave policy, it is very outdated and has been revised. The revised policy is in draft form and needs to be finalized and approved by the CAO.***

6. MISCELLANEOUS.

The following finding does not require a response, but should be considered as an additional way to improve HRD's administration of the payroll function.

An employee of the Department who was working on a  $\frac{3}{4}$  time basis earned birthday leave at the  $\frac{3}{4}$  time basis, which is 6 hours. The employee later became a full-time employee. During this time the employee took birthday leave and was paid at the full-time rate, which is 8 hours. The timekeeper did not realize that the employee should have been paid for 6 hours instead of 8. Department management should ensure that HRD staff maintains accurate and complete payroll records with respect to leave earned and leave used.

EXECUTIVE RESPONSE FROM HRD

***"HRD is aware of this error and has advised supervisors regarding appropriate accruals."***

CONCLUSION

By implementing these recommendations, HRD will better fulfill its responsibility to administer the City's payroll policies and procedures in an effective manner.

We appreciate the assistance and cooperation of the personnel of the Human Resources Department during this audit.

EXECUTIVE RESPONSE FROM HRD

***"HRD would like to extend its sincere appreciation to Internal Audit staff for the time and work dedicated to conducting a payroll audit. These audit findings provide HRD an opportunity to correct deficiencies in our payroll operations, strengthen department***

*procedures and better fulfill our responsibility to administer and comply with City policy as well as State and Federal regulations.*

*“We would also like to thank IA staff for their willingness to review the audit findings with HR management and their patience in answering all our questions.”*

**REVIEWED:**

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Principal Auditor

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Principal Auditor

**APPROVED:**

**APPROVED FOR PUBLICATION:**

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Debra Yoshimura, CPA, CIA, CGAP  
Internal Auditor

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Chairman, Audit Committee