



City of Albuquerque

Interoffice Memorandum

January 26, 2005

Ref. No.: 04-02-127F

To: Alfredo Santistevan, Director, Environmental Health Department

From: Carmen Kavelman, Acting Director, Office of Internal Audit and Investigations

Subject: FINAL FOLLOW-UP PAYROLL AUDIT REPORT NO. 02-127, ENVIRONMENTAL HEALTH DEPARTMENT, ANIMAL SERVICES DIVISION

Internal Audit performed a Follow-up Review of Payroll Audit No. 02-127, Environmental Health Department, Animal Services Division. The purpose of our review was to determine if the audit recommendations had been implemented.

The purpose of the Animal Services Division (ASD) is to provide animal services to enhance the health and welfare of both the citizens of Albuquerque and all owned, lost or stray animals within the community. Functions performed by ASD include the impounding of stray animals, the placement of animals for adoption and the euthanization of unadoptable animals. For FY2003, total personnel expenditures for ASD were \$2.9 million. For FY2004, ASD personnel expenditures were \$2.9 million for 81 full-time positions, 70% of total expenditures of \$4.1 million.

We determined the following:

RECOMMENDATION NO. 1:

We recommended that the Human Resources Department (HRD) promptly determine if each of the employee positions Citywide should be classified as exempt or non-exempt using the criteria established by the Fair Labor Standards Act (FLSA). We also recommended that the HRD should ensure that inconsistencies in City employees' FLSA exempt status are resolved.

Several years ago, the number of City positions was reduced from 1,200 to approximately 700. The audit determined that when this was done, new position codes were assigned to the existing position codes, without a study being done to determine if the new position codes should be classified as exempt or non-exempt. Additionally, the FLSA exempt status of individuals that filled a position did not always match the exempt status of the position as stated on the position master file. Some were listed as exempt from the FLSA on the position master file, but the employees in the positions were classified as non-exempt in other payroll files, or vice versa. For example, the position master file indicated that seven City employees who were deputy chiefs, managers or superintendents were

FLSA non-exempt. However, these employees were all assigned to paygroups that are FLSA exempt.

ACTION TAKEN:

The audit recommendations have been partially implemented. An independent consultant's study of M-13 through M-18 positions was completed in November 2002. This study determined 84 positions that were identified as being incorrectly classified as exempt or non-exempt, based on the criteria established by the FLSA. HRD plans on completing the process of reviewing these positions by the end of December 2004.

HRD met with the Department of Finance and Administrative Services, Payroll Division, (Payroll) and the Legal Department to develop a process for implementing the changes to the payroll system for FLSA status changes. The City recently implemented a new automated payroll system. The portion of the system which will be used by HRD has not yet been implemented. The system should be implemented within the next six months and at that time the changes which are needed in FLSA classifications will be made.

The New Mexico Department of Labor provided training to HRD personnel regarding the process for determining exempt/non-exempt status. HRD has implemented a procedure to review positions for FLSA status as they are created or reclassified.

HRD has not performed the self-audit of grade M-11 and M-12 positions. The committee assigned responsibility for this self-audit will be meeting to complete the task. However, no target date for completion has been set by the committee.

FOLLOW-UP RECOMMENDATION:

HRD should complete the self-audit of M-11 and M-12 positions.

HRD should continue to ensure that City employees' FLSA exempt status is accurate.

EXECUTIVE RESPONSE FROM HRD:

“HRD did not include M-11 and M-12 positions in the original self-audit because positions at this level do not fall under the executive, administrative or professional exemptions for Minimum Wage and Overtime Pay under the FLSA. At the M11 and M12 level, employees provide support services, which may include administrative support, clerical and secretarial responsibilities. These employees are typically supervised by a lead person or supervisor of a higher grade, or are engaged fifty percent (50%) or more of the time in the

same duties as subordinate clerical staff. They do not exercise decision-making authority at the organizational and/or policy level.

“HRD is in the process of reviewing the information gathered from the self-audit already conducted, and will utilize what was learned to revise its process for determining FLSA status on an on-going basis, and to ensure that the City becomes compliant with the changes to the FLSA that became effective in August of 2004. HRD will incorporate all positions, including M11 and M12’s, into the review process so that the City will have a comprehensive process in place.

“As mentioned above, HRD is utilizing what was learned from the self-audit to develop a consistent review process that will be applied on an on-going basis. HRD has already begun reviewing and assigning the FLSA status of all vacancies that arise or are created prior to advertisement. In addition HRD hopes to begin using a low cost software analysis tool in the second half of FY/05, which will allow the Classification and Compensation division to conduct reviews using standardized benchmarks in a timely fashion. This will also give HRD the ability to create a history file on City positions, since it is important to remember that the FLSA status of a position may be changed by how a particular employee is utilized. For example, a position may be determined to be non-exempt based upon the job description when it is created, but may become exempt if the person residing in the position is assigned supervisory or decision-making responsibilities. Thus, it is not unusual for an employee’s individual FLSA status to differ from the status assigned to a position job description.

“ISD is currently assessing the software to ensure it will interface with City systems”.

RECOMMENDATION NO. 2:

We recommended that the EHD ensure that provisions in City policies and FLSA are followed. We recommended that the EHD implement procedures to ensure that all allowable floating holiday time is properly authorized and recorded on the automated payroll system. We also recommended that EHD make it clear which employees are eligible and which are not eligible to accrue and use compensatory (comp) time, and that procedures should be implemented to ensure that all allowable comp time is recorded on the automated payroll system.

The audit determined that an ASD FLSA exempt employee who was no longer eligible for overtime or comp time continued to use comp time “off the books” by maintaining a manual record of comp

time hours earned and used. This violated City policies and EHD Department Directives. Previous EHD-ASD management had improperly allowed FLSA exempt employees to accrue and use comp time. Another ASD employee who was assigned to the same position code stated that she was also maintaining a comp time log off the books until EHD management instructed employees to stop the practice. We also determined that employees accrued and used floating holiday time without obtaining the required approval. Personnel Rules and Regs state, "With the written approval of their department director, employees may take any holiday as a floating holiday within one (1) calendar year after the holiday."

ACTION TAKEN:

The audit recommendations have been partially implemented. EHD established new ASD payroll procedures. These procedures specifically addressed the issue that FLSA exempt employees were not eligible for comp time and overtime. These procedures also specifically stated that any comp time was to be recorded on the City's automated payroll system in the pay period that it was earned. Additionally, the recording of comp time "off the books" was specifically prohibited.

EHD management informed us that all ASD employees were required to attend training regarding the new departmental payroll procedures. The division did not keep any written record of who attended this training so the auditors were not able to verify that all of the ASD employees had attended the required training.

We reviewed the City's automated payroll system comp time records for Animal Services, for the period from January 2003 through March 2004. According to these records, ASD FLSA exempt employees did not receive comp time.

We reviewed ASD floating holiday information for the period from January 2003 through March 2004. We selected a judgmental sample of five employees who had floated holidays during this period. For one of the five employees who floated a holiday, ASD could not provide documentation to verify that the employee had received supervisory approval to float the holiday.

The City's Personnel Rules and Regulations require that if an employee floats a holiday, the time must be used within the next 12 months. We selected a judgmental sample of 12 employees who had floated holidays during this period, to determine if floating holiday time earned was used during the next 12 months. Eleven of these employees had not used floating holiday time earned within the next 12 months, as required by the City's Personnel Rules and Regulations.

FOLLOW-UP RECOMMENDATION:

The EHD should ensure that ASD employees comply with the City's Personnel Rules and Regulations regarding floating holidays.

EXECUTIVE RESPONSE FROM EHD:

"EHD concurs. We will reiterate, via memo, with the timekeepers and the employees that floating holiday time must be used in accordance with Personnel Rules and Regulations or collective bargaining agreements".

RECOMMENDATION NO. 3:

We recommended that EHD develop procedures to ensure that times entered on the automated payroll system and timecards agree. We recommended that supervisors properly review and approve all employee timecards, timesheets and exception reports prior to giving them to the timekeepers. EHD should ensure that timekeepers record time into the automated payroll system directly from the timecards. We further recommended that EHD management develop written procedures that address specifics of the department's payroll policies, and train all timekeepers regarding payroll and personnel requirements.

The audit identified numerous discrepancies between the time recorded on timecards and the corresponding entries made to the automated payroll system. Hours worked as reported on thirty-six out of the fifty-two timecards reviewed (69%) did not agree to the hours entered on the automated payroll system. There were differences between amounts recorded on the automated payroll system and the timecards in overtime hours, comp time, sick leave hours, temporary upgrades and regular payroll hours. Unless timecards support amounts entered on the automated payroll system, EHD was at risk of being in violation of the requirements in the FLSA and City policies. EHD did not have written policies that required a review process to ensure entries were accurate and correct on the automated payroll system.

ACTION TAKEN:

The audit recommendations have been partially implemented. EHD management informed us that all ASD employees were required to attend training regarding the new departmental payroll procedures. Because the division did not keep any written record of who attended this training, the auditors were not able to verify that all ASD employees attended the required training.

EHD established new ASD payroll procedures; however, EHD has not developed a departmental payroll manual. The department has not conducted refresher training.

We reviewed a judgmentally selected sample of 12 ASD employees from the pay period ending April 2, 2004, to determine if the information entered on the automated payroll system was correct, and supported by the appropriate payroll documentation. We noted 21 discrepancies, as follows:

- There were 20 cases where there was a difference between the number of hours entered in the City's computerized payroll system and the number of hours on the employee's timecard or time summary.
- An employee had four hours of overtime during the pay period ending March 6, 2004 that was not entered into the City's automated payroll system until the pay period ending April 2, 2004.

FOLLOW-UP RECOMMENDATION:

EHD should ensure that times entered on the automated payroll system agree with employee timecards and other payroll documentation. Supervisors should thoroughly review all employee timecards, timesheets and exception reports prior to giving them to the timekeepers.

EXECUTIVE RESPONSE FROM EHD:

"EHD concurs. We did provide training to all ASD staff in February 2004. We will provide refresher training on a semiannual basis, will conduct a session in the 1st quarter 2005, and will ensure that all attendees sign in. The training will address time entry reconciliation and supervisory review, as well as the basic payroll principles covered in EHD's procedures".

RECOMMENDATION NO. 4:

We recommended that EHD ensure that temporary upgrades are made in accordance with City policies. We recommended that EHD ensure that temporary upgrades are properly justified, documented and approved. Upgrades should be approved in advance. We further recommended that EHD develop procedures that ensure upgrades do not exceed 160 hours per year, per position, unless proper approval for an extension is obtained.

Seventeen ASD employees were temporarily upgraded between December 2000 and December 2001. The audit determined that properly approved temporary upgrade forms were only prepared for 136 of the 637 upgrade hours during the last quarter of 2001. There were inconsistencies in how the

forms were completed. These inconsistencies included incorrect pay period dates for the temporary upgrades, no record of the upgraded pay rate or percentage of the increase, and some forms did not have the approval signature of the department director. Four employees worked in a temporary upgrade status for more than the 160-hour limit specified in the City policy. An animal handler was upgraded for 444 hours, a kennel supervisor was upgraded for 365 hours, an accounting assistant was upgraded for 264 hours, and an animal health tech was upgraded for 214 hours. Additionally, an employee was paid for 96 hours in temporary upgrade status for covering during the absence of the supervisor. However, the supervisor was absent for only 24 hours during the time this employee was upgraded. This was a violation of the Personnel Rules and Regs.

ACTION TAKEN:

The audit recommendations have been partially implemented. EHD implemented a procedure whereby the department's fiscal manager is supposed to review all temporary upgrades before they are processed. The fiscal manager signs the temporary upgrade form after she reviews it. However, this procedure is not being consistently followed. We reviewed a judgmentally selected sample of 15 temporary upgrades that were made by Animal Services during the period from January 2003 through April 2004. In two of these cases, Animal Services could not provide the auditors with the temporary upgrade forms that are required by the City to document the approval of upgrades. Eleven of the temporary upgrade forms were not signed to indicate that the upgrade had been reviewed by the department's fiscal manager, as was required by the EHD procedure. Additionally, four of the temporary upgrade forms were not signed by the Animal Services division manager, to indicate the required review and approval.

Also one temporary upgrade form was not signed by the department director, to indicate the required review and approval. In one case, an employee was paid for 16 hours of temporary upgrade. However, there was only supporting documentation for eight hours of approved temporary upgrade.

Relating to payroll upgrades under collective bargaining agreements, the City's Personnel Rules and Regulations state that "The Employee Relations Office must approve payroll upgrades into positions where a vacancy does not exist." In 13 cases in the audit sample, temporary upgrades were made by the Animal Services Division into collective bargaining agreement positions, where a vacancy did not exist. These 13 upgrades required the approval of the Employee Relations Office. However, EHD did not obtain the required approval in 11 of these cases.

FOLLOW-UP RECOMMENDATION:

The EHD should ensure that temporary upgrades are made in accordance with City policies, and properly reviewed and approved.

EXECUTIVE RESPONSE FROM EHD:

“EHD concurs. Timekeepers have been instructed to not enter any upgrades unless the required approvals are obtained. We will, as part of the overall payroll verification, ensure that this process is being followed”.

RECOMMENDATION NO. 5:

We recommended that the EHD ensure that hours of leave taken by employees are accurately entered on the automated payroll system. EHD should adopt a review process to accomplish this. We further recommended that any changes (payroll adjustments) to leave balances in the City's automated payroll system be clearly documented.

We reviewed Request for Leave of Absence forms (P-30) on file for nine employees. Personnel Rules and Regulations require that requests and approvals for leave are documented using the P-30. Discrepancies were noted between the leave times on the completed P-30s and the leave time entered on the automated payroll system. There were 11 cases where comp time usage entered on P-30s was not recorded on the automated payroll system. A P-30 for funeral leave and a P-30 for birthday leave were not entered on the automated payroll system. Another P-30 was for 40 hours of vacation, however, only 16 hours of vacation was entered on the automated payroll system. Supervisors are not following up on P-30s turned in by employees to make sure the time is entered correctly on the automated payroll system. Also, changes in leave taken (payroll adjustments) are not being documented so that the actual amount of leave recorded on the automated payroll system and the time recorded on P-30s is the same. EHD did not have written policies that required a review process to ensure entries are accurate and correct on the automated payroll system.

ACTION TAKEN:

The audit recommendations have been partially implemented. ASD has implemented procedures whereby computerized payroll system exception reports are being used to identify potential errors in recording payroll information. Also, a comparison is performed from the information that has been entered on the computerized payroll system to the source documents, to ensure that all information has been correctly entered.

There were three situations where adjustments were made to the City's computerized payroll system during the time period reviewed from January 2003 through April 2004. However

ASD did not have the required payroll adjustment forms on file to support these payroll entries.

FOLLOW-UP RECOMMENDATION:

The EHD should ensure that when changes are made to the City's computerized payroll system information; the required and approved payroll adjustment forms are on file to support these payroll entries.

EXECUTIVE RESPONSE FROM EHD:

“EHD concurs. We will ensure that all documentation is in order, completed and approved, before any hours adjustments are processed. Please note that, effective October 2004, the fiscal officer, rather than the fiscal manager, is approving these upgrades”.

RECOMMENDATION NO. 6:

We recommended that the EHD ensure that all leave taken is supported by P-30s. Leave taken by the employees reviewed in our sample did not always have the required P-30 on file to support approval for their absence from work. The following leave, recorded on the City's automated payroll system, did not have P-30s on file: 587 hours of vacation, 204 hours of sick leave, 130 hours of comp time, 31 hours of other paid absence, eight hours of birthday leave, and 48 hours of work-off-site. Supervisors were not verifying that leave taken was supported by a P-30. Employees may be taking unauthorized leave if amounts entered into the automated payroll system are not supported by a P-30.

ACTION TAKEN:

The audit recommendations have been partially implemented. ASD has implemented procedures whereby a comparison is performed from the information that has been entered on the computerized payroll system to the source documents, to ensure that all information has been correctly entered, and the required source documents are on file.

However, this procedure is not working as intended. We reviewed a judgmentally selected sample of 24 ASD employees to determine if the information entered on the automated payroll system was correct, and supported by the appropriate payroll documentation.

There were seven situations where the City's computerized payroll system reflected that ASD employees had taken leave and there were no P-30s on file for this leave. Administrative

Instruction No. 7-6, Leave of Absence Form (P-30), states, "All leave shall be coded correctly on the revised Leave of Absence Form (P-30) in order to properly identify the type of leave being taken." The P-30 documents the employees' use of sick leave, vacation leave, and other absences. The Administrative Instruction further states, "Department directors and supervisory staff are responsible for insuring that the procedures for accurately recording leave are followed and that records and supporting documentation are properly maintained. Consequently, we could not determine if the leave information that had been entered in the City's computerized payroll system was accurate or if it had been properly approved. Additionally, there were five P-30 forms that were not properly completed by the employee. The information that was omitted included:

- In three cases, the time that the employee was on leave was omitted from the form
- In one case, the employee did not sign the form
- In one case, the employee did not include their pay unit

FOLLOW-UP RECOMMENDATION:

EHD should ensure that P-30s are on file to support all leave recorded in the City's computerized payroll system.

EXECUTIVE RESPONSE FROM EHD:

"EHD concurs. We will ensure that the P-30s are completed, accurate, signed, and agree with the exception time entered before payroll is processed. We will again reiterate with payroll staff that the verification of exception time is part of the payroll clerk's bi-weekly payroll verification process".

RECOMMENDATION NO. 7:

We recommended that EHD ensure that overtime is only worked with prior approval. We further recommended that EHD adopt controls for the approval and review of overtime worked and develop procedures that ensure employees who work unauthorized overtime are subject to discipline.

The audit determined that EHD was not in compliance with City policies regarding overtime. As a result, costs associated with overtime are not being controlled and employees were working overtime which had not been authorized. The Personnel Rules and Regulations require the prior approval of the department director or immediate supervisor (as designated by the director) for the working of overtime. Failure to obtain prior approval is considered just cause for disciplinary action

up to and including termination. Our review of overtime worked for seven employees in our sample disclosed that overtime is routinely being worked without the required approval. For example, one employee worked one hundred and fifty-four hours of unauthorized overtime. For another employee, two different forms for overtime were completed for the same date at the same time of day. The employee was paid for all five hours requested even though the overtime was for overlapping times.

ACTION TAKEN:

The audit recommendations have been partially implemented. ASD has strengthened its controls over the approval process for overtime. An authorization to work overtime which is properly completed and authorized has to be present before overtime is entered on the automated payroll system. If the form is not present, the overtime is not supposed to be entered on the automated payroll system. However, we noted the following discrepancies relating to the payment of overtime:

- There was an overtime authorization form that approved an employee for 6 hours of overtime. The employee was paid 14.03 hours of overtime, although the employee's timecard showed only 12.7 hours of overtime worked.
- There was an overtime authorization form that approved an employee for 11 hours of overtime. However, the employee was paid 13.5 hours of overtime.

FOLLOW-UP RECOMMENDATION:

EHD should ensure that controls established over the payment of overtime are performed as intended.

EXECUTIVE RESPONSE FROM EHD:

“EHD concurs. We will ensure that overtime processing is accurate and complete. We will again reiterate with payroll staff that the verification of overtime pay/hours is part of the payroll clerk's bi-weekly payroll verification process”.

RECOMMENDATION NO. 8:

We recommended that EHD ensure that pay records of employees subject to FLSA should be accurate. We further recommended that EHD implement a review process to ensure that entries made to the automated payroll system are accurate and correct.

The audit determined that the EHD did not review the entries to the automated payroll system to ensure that the information was accurate and correct. As a result, errors were being made which resulted in non-compliance with FLSA, errors in pay amounts and the related wage expense for EHD. There were several entries that were coded incorrectly on the automated payroll system.

ACTION TAKEN:

The audit recommendations have been fully implemented. ASD has implemented procedures whereby a comparison is performed from the information that has been entered on the computerized payroll system to the source documents, to ensure that all information has been correctly entered, and the required source documents are on file. We performed audit testwork to determine if proper payroll codes were being used, and did not note any discrepancies.

RECOMMENDATION NO. 9:

We recommended that EHD ensure that correcting entries made to the automated payroll system records should be done in a timely manner. We further recommended that EHD should ensure that the employee, the timekeeper and a supervisor approve correcting entries to the automated payroll system. We also recommended that the EHD ensure that timekeepers are using valid correction forms.

Correcting entries for payroll errors were not being made in a timely manner. Additionally, some correcting errors that were made were erroneous. For example, correcting entries that were made to one employee's time on the automated payroll system resulted in the employee being overcharged two hours in vacation time. Contributing to this was the fact that correcting entries were made on three different occasions to the employee's time on the automated payroll system. In another situation, one employee used 8 hours of vacation that was not recorded on the automated payroll system until two months later. Some corrections were not made in the pay period in which the error or omission occurred. Corrections were made in a subsequent pay period as current pay items. As a result, there was no audit trail detailing whether errors were ever corrected. For corrections made to employees' records on the automated payroll system, EHD should have used a Pay Adjustment Request for adjustments in the automated payroll system. This document was not always used.

ACTION TAKEN:

The audit recommendations have been partially implemented. The audit testwork indicates that ASD is making payroll adjustments on a timely basis. We performed audit testwork to determine if the payroll adjustments were being properly approved, and noted the following discrepancies. Four adjustments were made to employees' leave balances. However, the employee did not sign the adjustment form to acknowledge that adjustments had been made to their payroll records.

FOLLOW-UP RECOMMENDATION:

EHD should ensure that all the required signatures are present on the hours adjustment forms.

EXECUTIVE RESPONSE FROM EHD:

“EHD concurs. We will reiterate with the payroll staff that all documentation must be in order, completed and approved, before any hours adjustments are processed”.

RECOMMENDATION NO. 10:

We recommended that the EHD ensure that employee leave balances (accrued vacation and sick leave) are accurate and current. We further recommended that EHD management develop procedures that will ensure that information is correctly entered to the automated payroll system and in a timely manner so that leave balances are accurate and current.

P-29 forms are documents used by departments to manually track leave earned and taken by employees. This document is used to verify the accuracy of the information entered into the automated payroll system. The audit determined that although manual P-29s have been replaced by an electronic form, EHD continues to use manual P-29s to track leave balances. The manual P-29s were not reviewed by a second party to verify the accuracy of the balances. As a result, errors and discrepancies occurred between leave balances as recorded on the automated payroll system and the manual P-29s. It was not clear whether the balances on the P-29s or the automated payroll system were correct.

ACTION TAKEN:

The audit recommendations have been fully implemented. EHD has discontinued the use of the manual P-29, as required by City policy. EHD now relies upon the computerized payroll system-generated P-29 record of leave balances. ASD uses computerized payroll system exception reports to identify potential errors in recording payroll information. A comparison is performed from the information that has been entered on the computerized payroll system to the source documents, to ensure that all information has been correctly entered.

OTHER ITEMS NOTED DURING THE FOLLOW-UP AUDIT:

This additional item was noted during the follow-up audit.

Required Adjustments to Vacation and Sick Leave Accruals

An Animal Services employee had 286 hours of FMLA Leave Without Pay during the period from January 2003 through March 2004. The City Personnel Rules and Regulations require that if an employee has eight or more hours of leave without pay during a pay period, the employee's sick and vacation leave accruals should be adjusted. This adjustment is so that the employee does not accrue sick and vacation leave when they are on leave without pay. There were eight pay periods in which this employee had eight or more hours of leave without pay. However, for these eight pay periods, the employee's sick and vacation leave accruals were not adjusted. Consequently, the employee accrued sick and vacation leave when they were on leave without pay. There was one pay period the employee had eight or more hours of leave without pay. For this pay period, the employee's vacation leave accrual was adjusted but the sick leave accrual was not adjusted.

RECOMMENDATION

EHD should ensure that if an employee has eight or more hours of leave without pay during a pay period, the employee's sick and vacation leave accruals is adjusted.

EXECUTIVE RESPONSE FROM EHD:

“EHD concurs, and will adjust the accruals for the aforementioned employee. We will ensure that payroll staff run the biweekly Leave Without Pay report (which reports LWOP hours by employee and calculates the accrual adjustment which should be made), and adjust the accruals accordingly. The report will substantiate the adjustments and will be filed with the biweekly payroll”.

CLK/JJT/vmd...

xc: Mayor Martin J. Chavez

Follow-Up Review
Environmental Health Department
Animal Services Division
January 26, 2005
Page 15

04-02-127F

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