

**FOLLOW-UP OF
HUMAN RESOURCES DEPARTMENT PAYROLL**

REPORT NO. 07-02-117F



**City of Albuquerque
Office of Internal Audit and Investigations**



City of Albuquerque
Office of Internal Audit and Investigations
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December 13, 2006

Accountability in Government Oversight Committee
City of Albuquerque
Albuquerque, New Mexico

Follow-Up: HUMAN RESOURCES DEPARTMENT PAYROLL
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FINAL

INTRODUCTION

The Office of Internal Audit and Investigations (OIAI) performed a Follow-up of Audit No. 02-117, Human Resources Department Payroll, issued February 12, 2003. The purpose of our Follow-up is to report on the progress made by Human Resources Department (HRD) management in addressing our findings and recommendations.

Background Information Relating to Audit No. 02-117

OIAI performed a payroll audit of HRD for the pay period ended March 22, 2002. A review of internal controls was made to determine if they were adequate. Good controls are necessary to assure management that payroll regulations and procedures are being properly administered.

HRD's budget for fiscal year 2007 (FY07) is \$52,402,000. Five percent of this amount, \$2,860,000 was for salary and benefit costs. Human Resources has 43 approved positions for FY07.

SCOPE, OBJECTIVES, AND METHODOLOGY

Our Follow-up procedures consist of inquires of City personnel and review and verification of applicable documentation to assess the status of our audit recommendations. Our Follow-up is substantially less in scope than an audit. Our objective is to ensure management has taken meaningful and effective corrective action in regards to our findings and recommendations. The audit was conducted in accordance with Government Auditing Standards, except Standard 3.49, requiring an external quality review.

The scope of the Follow-Up did not include an examination of all the functions and activities related to HRD. We limited our scope to actions taken to address our audit recommendations pertaining to HRD payroll activities from the period of February 12, 2003 through September 15, 2006.

RECOMMENDATION NO. 1:

The audit determined that HRD did not have adequate supervisory review of its payroll function. Several exceptions with HRD payroll procedures for timekeeping and record keeping came to our attention during the audit, including:

- Request For Leave Of Absence Form (P-30) did not always agree with time recorded on the employee timesheet.
- Non-exempt employees' timesheets did not agree with hours recorded on the payroll register.
- Numerous P-30s had cross-outs and alterations or were not completed correctly.
- Several issues with the leave of absence form (P-30) needed to be corrected.

The HRD payroll supervisor had the ultimate responsibility for ensuring that the payroll function was operating in accordance with City rules and regulations. Timekeepers had the ability to make adjustments that had previously been performed by the Department of Finance and Administrative Services (DFAS) Payroll Section. Therefore, HRD payroll supervisory review needed to be strengthened in order to detect errors, omissions, and irregularities.

The HRD supervisor responsible for the payroll function had performed little review in the payroll process. For example, the payroll supervisor did not review or approve the Time Card Detail Report. Without adequate review, there could have been entry errors to the automated payroll system. Employees could have been receiving incorrect pay and leave allocations. In addition, since the supervisor was not knowledgeable of timekeeper entries to the payroll system, the timekeeper could have made unauthorized changes to the automated payroll system that may not have been detected.

The audit recommended that:

- HRD management ensure that the supervisor of the payroll function more thoroughly review the payroll processing.
- HRD take steps to ensure that all payroll adjustments for prior periods are documented in accordance with payroll policies and procedures.
- HRD ensure that all leave taken by employees is properly recorded on the P-30s and agrees to the timesheets.

HRD responded that it had reassigned management staff to provide proper supervision of the payroll function. Payroll procedures had been revised and would be finalized upon approval of the department managerial leave policy. All HRD staff would be provided training and a copy of the payroll procedures for their reference.

ACTION TAKEN

The audit recommendations have been fully implemented. OIAI verified that HRD has strengthened its payroll supervisory review process and has taken steps to ensure that all payroll adjustments are properly documented and all leave taken by employees is properly recorded. OIAI interviewed HRD payroll personnel and performed payroll testing of the HRD payroll for the pay period ending September 15, 2006. OIAI tested 22 out of 76 entries made to the Time Card Detail for the pay period ending September 15, 2006 to verify that the entries were properly supported by approved P-30s, payroll adjustment forms or requests for leave under the Family and Medical Leave Act (FMLA).

HRD has also developed and implemented a written departmental payroll policy, which includes procedures relating to the preparation and supervisory review of payroll documentation.

RECOMMENDATION NO. 2:

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. One employee should not record payroll transactions, reconcile leave records, and have physical control of payroll checks.

HRD was maintaining its record of leave balances forms (P-29s) manually on paper forms. However, the City required that P-29s be maintained on the automated payroll system. Also, the HRD timekeeper was reconciling the manual P-29s to the automated payroll system records and was unaware that a different person should reconcile these records for proper separation of duties.

The timekeeper was also authorized to pick-up payroll checks from the Treasury Division of DFAS. The same employee should not be responsible for recording payroll transactions, reconciling leave records, and having physical control of payroll checks.

The audit recommended that:

- HRD assign payroll duties to more than one employee to ensure a separation of duties.
- HRD maintain the Department's P-29s on the automated payroll system.
- HRD rescind the timekeeper's authorization to pick-up payroll checks from the Treasury Division, and assign an employee who did not have entry access to the automated payroll system.

HRD responded that the payroll supervisor would review all aspects of the payroll process including checking payroll forms for accuracy and reconcile all payroll forms against the payroll proof report/Time Card Detail (TCD). The payroll supervisor would follow the same review process to reconcile and verify employee leave balances. HRD also responded that it had rescinded the timekeeper's authorization to pick up payroll checks from the Treasury Division, and had an employee and alternate who did not have access to the automated payroll system authorized to pick up payroll checks. HRD further responded that it still maintained paper P-29s and reconciled these to the automated payroll system records.

ACTION TAKEN

The audit recommendations have been partially implemented. The recommendation that HRD assign an employee other than the timekeeper to reconcile employees' leave balances on the payroll system has been implemented. OIAI examined correspondence between the HRD timekeeper and the HRD payroll supervisor to verify that the HRD payroll supervisor reviews payroll documentation to ensure that leave taken by employees is properly recorded against the employee's leave balances in the automated payroll system. HRD maintains employee leave balance records on the automated payroll system.

According to the Treasury Division's records as of August 18, 2006, the timekeeper's authorization to pick up payroll checks has not been rescinded. The timekeeper who is authorized to pick up payroll checks has access to the automated payroll system.

RECOMMENDATION

HRD should rescind the timekeeper's authorization to pick up payroll checks from the Treasury Division.

RESPONSE FROM HRD

“A copy of the memo was sent to Frankie Chavez, Treasury Supervisor, on February 12, 2003 rescinding the timekeeper’s authority to pick up payroll checks. The timekeeper does not appear on the 2005-2006 Verification Report for Department Financial ID Card Holders issued by DFAS. HRD will send a follow-up memo to Treasury to ensure the rescission is reflected in the record.”

AUDITORS COMMENT

Although the HRD timekeeper does not appear on the 2005-2006 Verification Report, the Treasury Division’s 2006-2007 Verification Report, dated August 18, 2006, indicates the timekeeper has authorization to pick up payroll checks.

RECOMMENDATION NO. 3:

An HRD classified employee was appointed to an unclassified position. This employee’s pay was increased based upon this appointment. 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 did 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. As a result, 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.

The audit recommended that the CAO 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.

The CAO responded 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. HRD would draft a procedure for the CAO's approval that will be included in the Personnel Rules & Regulations.

ACTION TAKEN

The audit recommendation has been fully implemented. The Personnel Rules and Regulations, Paragraph 702.5, Classified Employees Who Accept Unclassified Positions, was revised in January 2006. The revision requires "The employee's salary will be commensurate with the education and experience requirements of the position and within the pay range of the respective position in which they are placed."

RECOMMENDATION NO. 4:

The audit determined that some HRD employees who were not exempt from the Fair Labor Standards Act (FLSA) were completing timesheets that showed exceptions to the regular workweek. FLSA non-exempt employees should record the actual time that they work each day, including absences on a timesheet or timecard.

The audit identified two instances where the hours worked and leave taken were not indicated on employees' 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.

The audit recommended that HRD require all non-exempt employees to complete a timesheet or timecard showing the actual hours worked. The audit also recommended that HRD not accept timesheets that are not properly completed in accordance with Federal, State and City requirements.

HRD responded that it had reviewed the proper method for completing time sheets with Division managers and at HRD staff meetings. HRD would ensure that all non-exempt employees were required to complete a timesheet showing the actual hours worked. The payroll supervisor would review timesheets to ensure that non-exempt employees were recording the actual time worked each day, and would not accept any timesheet that is not properly completed in accordance with Federal, State and City requirements.

ACTION TAKEN

The audit recommendations have been fully implemented. HRD requires that all HRD non-exempt employees complete a timesheet showing the actual hours worked. OIAI examined all non-exempt employee timesheets for the pay period ending August 4, 2006 and verified that the timesheets reflected actual hours worked and were properly completed and approved. The timekeeper and payroll supervisor both review timesheets for proper completion, approval, and that non-exempt employees are recording the actual time worked each day.

RECOMMENDATION NO. 5:

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. The audit determined that 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.

The audit also determined three HRD employees whose payroll costs were being overridden from their cost center back to the same cost centers. This was an unnecessary step.

The audit recommended that the HRD payroll supervisor review payroll cost center overrides and other reports periodically to ensure that the payroll function is operating as intended. The audit also recommended that HRD management ensure that the override for the employee who performs testing for APD is properly charged to the correct cost center.

HRD responded that periodic review of cost center overrides and other reports would be conducted to ensure employee payroll costs are charged to the appropriate cost center. The payroll supervisor would 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.

ACTION TAKEN

The audit recommendations have been fully implemented. The timekeeper and payroll supervisor now review all payroll exception reports, including cost center overrides, prior to the last payroll download to identify any corrections that need to be made.

HRD no longer needs to do an override for the APD testing employee because the position funding was moved to HRD.

RECOMMENDATION NO. 6:

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 stated, in paragraph 3, "Managerial Leave will not be granted on an hour-for-hour basis for time worked under this plan."

The audit determined that three HRD employees were allowed to accrue managerial leave on an hour-for-hour basis, based on the verbal approval of a former Deputy Chief Administrative Officer. All of the individuals involved were aware that this was in violation of both the City Personnel Rules and Regulations and the approved HRD Managerial Leave Plan. During the period from July 27, 2001 through December 31, 2001, one of the three employees earned a total of 119 hours of managerial leave.

The audit recommended that HRD management only award managerial leave in accordance with the City's Personnel Rules and Regulations and the Department's approved plan.

HRD responded that its existing managerial leave policy would be revised. The revised policy was in draft form and needed to be finalized and approved by the CAO.

ACTION TAKEN

The audit recommendation has been partially implemented. The HRD payroll supervisor informed OIAI that HRD is not currently awarding managerial leave. This was verified by OIAI's review of the September 21, 2006 HRD employee leave balance report.

HRD's payroll policy does include a Managerial Leave Policy. However, HRD's Managerial Leave Policy has not been approved by the CAO. This is required by Paragraph 402.7 of the

City's Personnel Rules and Regulations, which states, "Managerial Leave may only be granted as the result of a pre-existing plan or program authorized by the Chief Administrative Officer"

RECOMMENDATION

HRD should obtain the required CAO approval for its Managerial Leave Policy.

RESPONSE FROM HRD

"The updated HRD payroll policy, which addresses managerial leave, has been approved."

CONCLUSION

Four of the six recommendations noted in the initial audit have been fully implemented. Two items have been partially implemented. HRD should rescind the timekeeper's authorization to pick-up payroll checks from the Treasury Division. HRD should obtain the required CAO approval for its Managerial Leave Policy.

We appreciate the assistance and cooperation of HRD personnel during the audit.

Principal Auditor

REVIEWED:

Audit Manager

APPROVED:

APPROVED FOR PUBLICATION:

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