

PAYROLL AUDIT REPORT

OF THE

DEPARTMENT OF SENIOR AFFAIRS

REPORT NO. 07-109



CITY OF ALBUQUERQUE
OFFICE OF INTERNAL AUDIT AND INVESTIGATIONS

Payroll Audit Department of Senior Affairs
Report No. 07-109
Executive Summary

Background The Office of Internal Audit and Investigations (OIAI) performed a payroll audit of the Department of Senior Affairs (DSA). DSA has 95 full time employees. DSA also hires seasonal and student employees as needed. The estimated actual for FY06 expenditures for personnel was \$3.04 million. The approved FY07 budget for personnel expenditures is \$3.37 million.

Objective: Are separation of payroll duties documented and followed?

DSA has not provided for the separation of payroll duties. Timekeepers who enter payroll into the automated payroll system also review payroll checks and pay slips for accuracy and prepare them for distribution to the individuals in the DSA divisions who will distribute them to employees.

Recommendation: DSA should reassign duties so that the same individuals do not have conflicting duties for the recordkeeping and custody of assets. Someone other than the time keepers should be preparing the payroll checks and pay slips for distribution to supervisors.

Objective: Is DSA following City policies, applicable laws, regulations, and provisions in union contracts for payroll activities?

Authorizations reported by Treasury and DSA for the picking up of pay checks and pay slips do not agree. Two of the individuals authorized by DSA were not listed on Treasury's records as authorized.

Five out of 15 applications completed for outside employment by DSA employees were not in compliance with City Personnel Rules and Regulations. Four of the five were not renewed in the required timeframe. The other one was not signed by the Human Resources Director.

Recommendations: DSA should periodically review the information on record with Treasury for the authorizations regarding the pick up of pay checks and pay slips. Treasury should ensure that the information they have on file regarding color coded I.D. cards is correct and current.

DSA should take corrective action to make sure that all applications for outside employment are kept current and properly completed as stated in the City's Personnel Rules and Regulations.

During our fieldwork, we noted no exceptions for the following objectives:

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Is the information listed on the payroll register accurate and supported by the appropriate documentation?

Has the documentation been properly completed and approved as required?

Management responses are included in the audit report.



City of Albuquerque
Office of Internal Audit and Investigations
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May 30, 2007

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

Audit: Payroll Audit
Department of Senior Affairs
07-109

FINAL

INTRODUCTION

The Office of Internal Audit and Investigations (OIAI) conducted a payroll audit of the Department of Senior Affairs (DSA). The audit was included in the fiscal year (FY) 07 approved audit plan.

DSA provides a broad range of programs and services to meet the needs of senior citizens in Albuquerque and Bernalillo County. DSA maintains six senior centers, one multigenerational center and 18 meal sites. DSA has three program strategies to meet these needs:

- Well being and fitness
- Access to basic services to support independent living and frail senior citizens
- Volunteerism to provide opportunities to senior citizens for community involvement

DSA has 95 full time employees. DSA also hires seasonal and student employees as needed. Estimated actual FY06 personnel expenditures were \$3.04 million. The approved budget for FY07 personnel expenditures is \$3.34 million.

AUDIT OBJECTIVES

The objectives of our audit were to determine:

- Are separation of payroll duties documented and followed?

- Is the information listed on the payroll register accurate and supported by the appropriate documentation?
- Has the documentation been properly completed and approved as required?
- Is DSA following City policies, applicable laws, regulations, and provisions in union contracts for payroll activities?

SCOPE

Our audit did not include an examination of all the functions and activities related to the payroll process. Our scope included a review of selected payroll activities from December 9, 2005 through December 8, 2006.

This report and its conclusions are based on information taken from a sample of transactions and do not intend to represent an examination of all related transactions and activities. The audit report is based on our examination of activities through the completion of fieldwork, March 23, 2007, and does not reflect events or accounting entries after that date.

The audit was conducted in accordance with Government Auditing Standards, except Standard 3.49, requiring an external quality control review.

METHODOLOGY

During the audit, OIAI interviewed DSA fiscal staff and timekeepers. Employees were selected for testing using statistical sampling. A judgmental sample of timekeepers and fiscal personnel were also selected for testing.

OIAI reviewed the DSA processing of payroll and supporting documentation for entries to the City's automated payroll system. We reviewed practices followed for the approval and review of payroll transactions according to City payroll policies and procedures.

FINDINGS

The purpose of an internal audit is to identify changes in the auditee's activities, which would improve its effectiveness, efficiency, and compliance with administrative policies and applicable rules and regulations. Therefore, the auditee's activities that appear to be functioning well are not usually commented on in audit reports.

The following findings concern areas that we believe would be improved by the implementation of the related recommendations.

1. THE DSA SHOULD ENSURE THERE IS A SEPARATION OF PAYROLL DUTIES.

Payroll checks and pay slips are picked up from the Treasury Division (Treasury) of the Department of Finance and Administrative Services (DFAS) and given to the timekeepers who also enter payroll. The timekeepers then review the items for accuracy and prepare them for distribution to the individuals in the DSA divisions who will distribute them to the employees. The preparation of items for distribution should not be performed by the timekeepers since they enter payroll information into the City's automated payroll system.

According to the Government Finance Officers Association, incompatible duties should be separated. Duties of authorization, recordkeeping and custody of assets should be assigned to different individuals. No one individual should be assigned more than one of these duties. Because timekeepers have recordkeeping duties, they should not be assigned duties of authorization or custody of assets. Unless incompatible duties are separated, the potential for fraud and undetected errors increases.

From discussions with the timekeepers and their supervisor, they believed they had provided for adequate separation of duties. They were unaware that the timekeepers' assignments did not provide for the separation of duties.

RECOMMENDATION

DSA should reassign duties so that the same individuals do not have conflicting duties for the recordkeeping and custody of assets. Someone other than the time keepers should be preparing the payroll checks and pay slips for distribution to supervisors.

RESPONSE FROM DSA

"The Department of Senior Affairs concurs with the recommendation and has reassigned duties so that the same individuals do not have conflicting duties for the recordkeeping and custody of assets."

2. DSA SHOULD UPDATE THE INFORMATION ON FILE WITH TREASURY REGARDING COLOR CODED I.D. CARDS.

OIAI reviewed five randomly selected payroll dates between December 9, 2005 through December 8, 2006 to determine if the individuals picking up the payroll checks and pay slips from Treasury had authorization from DSA and were listed on Treasury's Department Financial ID Card Holders Listing (list). OIAI noted that the two individuals performing these functions were authorized by DSA to pick up payroll checks and pay slips from Treasury. However, these two individuals were not included on Treasury's list.

According to DSA, the list was updated with Treasury in September 2005 to include these two individuals. DSA does not know if the list has been updated since that time. The list provided by Treasury did not reflect the changes DSA made in September 2005. The list maintained by Treasury included names of employees who no longer work at DSA. Also for two other individuals, the color I.D card held by the individuals did not match the color of the I.D. card reported for the individuals on the list. The color of the card determines what type of checks (payroll, accounts payable or both) the individual is authorized to pick up. DSA does not routinely review information on the list to ensure that the changes requested by DSA are made.

Treasury's Cash Handling manual, places the responsibility on City departments to assign authorizations to employees to pick up payroll checks and slips from Treasury. Treasury has the responsibility to issue the appropriately colored coded I.D. card to the designated individuals.

If the list is not routinely reviewed and updated, it may be inaccurate resulting in unauthorized activities of payroll checks and pay slips.

RECOMMENDATION

DSA should routinely review the information on the report maintained by Treasury to ensure that the information is correct. Any necessary corrections should be documented and followed up by DSA to final resolution.

DFAS should ensure that Treasury's list accurately reflects the information provided by DSA.

RESPONSE FROM DSA

“The Department of Senior Affairs concurs with the recommendation that they should have been more diligent in determining that the Treasury Division had updated their records to reflect the corrections provided by Senior Affairs. Since the initiation of this audit, Senior Affairs has resubmitted the corrected copy twice to Treasury Division. The Department will continue to notify Treasury on any changes and follow up to ensure Treasury has made those changes.”

RESPONSE FROM DFAS

“DFAS concurs with the recommendation. Treasury has updated and reviewed Treasury Department Financial ID Card Holders Listing to ensure it accurately reflects the information provided by DSA.”

3. DSA SHOULD UPDATE EMPLOYEE APPLICATIONS ANNUALLY FOR OUTSIDE EMPLOYMENT.

City Personnel Rules and Regulations assigns the responsibility for authorization of outside employment to each department director and the Human Resources Director. Applications may be authorized for up to a period of one year and must be renewed annually in January of each year.

DSA has 15 employees who hold jobs outside of their City employment. Four of the applications have not been renewed as required. Three of the four applications should have been renewed in February 2007. One of the four applications expired in January 2006. This application has not been renewed since it expired.

DSA does not have a process in place to ensure that applications for outside employment are completed and updated as required. Without an annual update of applications, DSA cannot determine if employees are working in excess of the hours allowed or if any conflict of interests may be present.

RECOMMENDATION

DSA should update employee applications annually for outside employment in compliance with Personnel Rules and Regulations.

RESPONSE FROM DSA

“The Department of Senior Affairs concurs with the recommendation. Historically, when the Department has been made aware that an employee has or intends to seek outside employment, the employee is provided with an Outside Employment Form. After the employee completes their portion of the form, the Department ensures the form has been completed and submitted for the appropriate signatures. Annually in January, the Department would notify DSA supervisors of their staff who had submitted a request the prior year for Outside Employment.

“In the future, the Department will notify each employee individually who had an outside employment form on file for the previous calendar year, remind them that a renewal is due if they will continue outside employment, and that failure to do so will result in violation of City Personnel Rules and Regulations 310. EMPLOYMENT OUTSIDE THE CITY SERVICE and could result in disciplinary action.”

CONCLUSION

Two of the three findings noted above occurred because DSA did not follow the applicable City policy. OIAI believes the payroll process will be strengthened as DSA implements the appropriate changes. One finding was related to the separation of duties. DSA should ensure that separation of duties is provided for when making assignments for responsibilities and authorizations relating to payroll. This is one of the key elements in establishing controls over a process.

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

Senior Auditor

REVIEWED

Internal Auditor

APPROVED:

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Chairperson, Accountability in Government
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