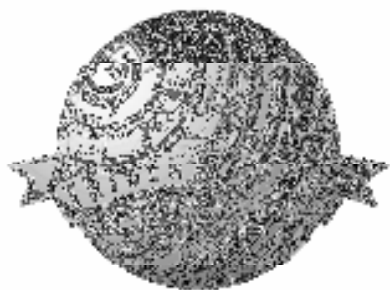
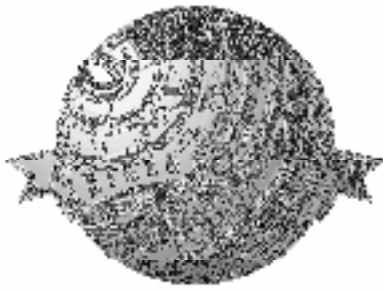


**FOLLOW-UP OF
PAYROLL AUDIT – COUNCIL SERVICES
REPORT NO. 07-04-112F**



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



City of Albuquerque
Office of Internal Audit and Investigations
P.O. BOX 1293 ALBUQUERQUE, NEW MEXICO 87103

September 20, 2007

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

Follow-up: Payroll Audit – Council Services
07-04-112F

FINAL

INTRODUCTION

The Office of Internal Audit and Investigations (OIAI) performed a follow-up of 04-112, Payroll Audit, Council Services Department (Council Services) dated February 22, 2006. The purpose of our follow-up is to report on the progress made by Council Services management in addressing our findings and recommendations.

Council Services consists of three units of organization – Legislative/Council Support Services, Constituent Services and Community Relations, and Policy Evaluation and Development Services. The department operates under the guidance of the Director of Council Services. Personnel costs accounted for 84% of Council Services Fiscal Year (FY) 2007 approved budget.

SCOPE, OBJECTIVES, AND METHODOLOGY

Our follow-up procedures consist of interviews 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.

The scope of the follow-up did not include an examination of all the functions and activities related to Council Services' payroll process. We limited our scope to the date of our final report, February 22, 2006, through the end of fieldwork, July 19, 2007.

RECOMMENDATION NO. 1:

Five out of 18 full time employee payroll records were examined for the 12 months ending October 31, 2004. The following were the findings noted in the report:

- ❖ Six leave of absence form's (P-30) requesting and authorizing sick and vacation leave for one employee were missing.
- ❖ One P-30 was missing the supervisor's signature authorizing the leave.
- ❖ Eight P-30's were submitted but not properly completed. The pay units, department name, date signed and date approved were missing on several forms.
- ❖ Adjustment forms for changes made to vacation and sick leave balances were missing for two of the employees sampled.
- ❖ Two of eight P-30's requesting vacation and sick leave were approved 10-12 days after the vacation or sick leave was taken.
- ❖ The payroll supervisor did not review or approve the Time Card Detail Report.

OIAI recommended:

- ❖ Payroll supervisors and timekeepers attend training to strengthen controls over the payroll function.
- ❖ Input into the payroll system is promptly reviewed for accuracy of the data, and employees and supervisors sign and date all payroll forms.
- ❖ Procedures are developed to ensure that P-30 forms are accurate and properly completed.
- ❖ All payroll changes and corrections are to be completed using the Hours Adjustment Form.
- ❖ P-30's are submitted and approved timely.
- ❖ Procedures are developed to ensure that employee payroll files are complete and documentation is properly maintained.

Council Services stated that the recommendations had been implemented. The payroll processing and supervisory review procedures were reviewed and changes were made. The timekeeper and alternate attended training for payroll procedures in November 2005. Each employee was reminded of the requirement to submit approved P-30s timely and prior approval be obtained for vacation leave. Adjustment forms will be used and signed by the timekeeper, the employee, and the supervisor. The director now reviews and approves the Time Card Detail Report for entry errors.

ACTION TAKEN

The audit recommendation has been partially implemented. Documentation of the November 2005 training class attended by the timekeeper and the alternate could not be provided by Council Services. The Department of Finance and Administrative Services' (DFAS) could not locate the sign in sheet for the training class stated above.

OIAI noted two employees who were on unpaid leave status during our test work. Neither employee had an Hour's Adjustment Form completed to reduce vacation and sick leave hours as required by the City's Payroll Manual.

During our test work of the pay periods ending January 5, February 16 and March 30, 2007, we noted that the timekeeper is not comparing the time card detail report to the payroll proof report for accuracy. Since the two reports were generated on different dates, corrections were not reflected in the reports.

Based on our test work for the pay periods stated above, we noted the remaining recommendations for this finding were fully implemented. Input into the payroll system was promptly reviewed and the payroll forms were signed and dated. Procedures were developed to ensure that P-30's were properly completed and employee payroll files were complete and documentation was maintained. We also noted that P-30's were submitted and approved timely.

RECOMMENDATION

Council Services should retain documentation of attendance for training classes. Council Services should also ensure that changes and corrections to payroll are completed using the Hours Adjustment Form. Council Services should also retain the final time card detail report, payroll proof report and final payroll register for each pay period. The finalized reports cannot be reproduced after three months.

RESPONSE FROM COUNCIL SERVICES

“Council Services will retain documentation of attendance for training classes. (Staff has been reminded to retain such documentation.)

“Council Services will correctly complete and use the Hours Adjustment Form.

“Council Services will retain the final time card detail report, the payroll proof report and final payroll register (which will be compared to the time card detail report).”

RECOMMENDATION NO. 2:

Council Services did not have separation of duties within the payroll process. The timekeeper had full access and control of the payroll process. The timekeeper entered payroll, made changes and adjustments to payroll records, and picked-up and distributed the paychecks.

OIAI recommended Council Services ensure:

- ❖ Payroll duties were assigned to more than one employee for proper separation of duties.
- ❖ Data input and adjustments into the payroll system were reviewed for accuracy.
- ❖ Timekeepers did not have access to payroll checks and an employee independent of the payroll system distributed payroll checks.

Council Services responded that the recommendations had been implemented. The duties within the payroll process were separated. An employee who is independent of the payroll system was handling the checks and another independent employee was trained and authorized to act as the alternate. The director was reviewing adjustments and input for accuracy.

ACTION TAKEN

The audit recommendation has been fully implemented. Per review of the list of timekeepers and employees who pick up payroll checks from the DFAS – Treasury Division (Treasury), separation of duties have been accomplished. The January 5, February 16, and March 30, 2007 pay periods were reviewed and we noted the director was properly reviewing the data input and adjustment entries for accuracy.

Per review of Treasury's payroll distribution sheets for February through April 2007, we noted authorized employees picked up and distributed payroll checks.

RECOMMENDATION NO. 3:

During the twelve months ended October 31, 2004, sick and vacation, accruals were not adjusted for employees who were on leave without pay. Five employees who took leave without pay continued to receive full vacation and sick leave accruals. Leave without pay ranged from 20 to 80 hours per pay period. Vacation and sick leave accruals should have been prorated based upon the number of paid hours worked during each pay period.

OIAI recommended Council Services ensure:

- ❖ Adjustments were made to leave accruals for employees on leave without pay.
- ❖ Employee's sick and vacation leave accruals/balances were properly reviewed and adjusted. If vacation or sick leave was taken, which was not earned by the employee, the City should have been reimbursed for this time.

Council Services responded that the audit recommendation had been implemented. The timekeeper and director reviewed the pertinent City Personnel Rules and Regulations, and all accruals for leave without pay will be reviewed for proper adjustments by the timekeeper and director.

ACTION TAKEN

The audit recommendation has been partially implemented. During OIAI's review of FY05 and December 2006 through March 2007, we noted two employees that were on leave without pay. Employee # 1's vacation and sick leave accruals were not adjusted as required by the City's Payroll Manual. Vacation leave should have been reduced by 1.54 hours and sick leave should have been reduced by 1.48 hours. Employee # 1 also received holiday pay

even though the employee was not on pay status the workday immediately before and after the holiday as required by the City's Personnel Rules and Regulations.

Employee # 2's vacation leave was under adjusted and should have been reduced by an additional .46 hours.

RECOMMENDATION

Council Services should reduce employee # 1's vacation leave balance by 1.54 hours and their sick leave balance by 1.48 hours. Council Services should also reduce the employees pay to correct the holiday pay received in error. Council Services should reduce employee # 2's vacation leave balance by .46 hours.

Council Services should review all employees who were on unpaid status during 2006 and 2007 and adjust the leave balances as applicable. Council Services should ensure that employees on unpaid status in the future have their vacation and sick leave balances reduced in accordance with the Payroll Manual.

RESPONSE FROM COUNCIL SERVICES

"Council Services will review all employees who were on unpaid status during 2006 and 2007 and adjust leave balances if applicable."

"Council Services will follow the Payroll Manual regarding the reduction of leave balances for employees on unpaid status."

RECOMMENDATION NO. 4:

Council Services timekeeper did not run the Exception Reports as required, which could leave payroll errors undetected. Exception Reports contain information used to help the timekeepers and fiscal managers identify problems with an employee's pay. It is essential that timekeepers run these reports each Monday, Tuesday, and Wednesday morning of pay week to detect possible errors.

OIAI recommended Council Services ensure the timekeeper runs the required Exception Reports.

Council Services responded that the recommendation had been implemented. The timekeeper is running and reviewing payroll exception reports as required during each pay week. The director is also reviewing the reports.

ACTION TAKEN

The audit recommendation has been partially implemented. During OIAI's review of the payroll documentation for February through April 2007, there were no Exception Reports included in the file. Per discussion with the timekeeper and review of the pay week process, the timekeeper does run and review the Exception Reports. However, the Exception Reports with errors are not printed and retained with the payroll documentation.

RECOMMENDATION

Council Services should ensure that the timekeeper prints and retains any Exception Reports that contain errors. In addition, the supporting documentation used to clear the errors should be retained.

RESPONSE FROM COUNCIL SERVICES

“The Council Services timekeeper will print and retain any Exception Reports that contain errors and any supporting documentation used to clear the errors.”

RECOMMENDATION NO. 5:

The timekeeper did not consistently attend the Payroll User Group (PUG) meetings held every other month. Bi-Monthly PUG meetings inform timekeepers of new payroll information, payroll updates, or changes in payroll procedures.

OIAI recommended Council Services ensure the timekeeper consistently attend PUG meetings in order to stay current with payroll information.

Council Services responded that the audit recommendation had been implemented. The timekeeper was to attend all of the PUG meetings or arrange for the alternate timekeeper to attend. The timekeeper will keep the materials handed out at the meetings and share pertinent information with the alternate timekeeper.

ACTION TAKEN

The audit recommendation has not been implemented. Per review of the FY07 meeting sign in sheets, we noted that the timekeeper or the alternate did not attend two of the six meetings.

RECOMMENDATION

Council Services should ensure that either the timekeeper or alternate attend every PUG meeting. This will ensure that the timekeeper is up to date on payroll information.

RESPONSE FROM COUNCIL SERVICES

“At the time this recommendation was originally responded to, I understood that attendance at PUG meetings by the Council timekeeper or alternate was 100%. In the future, the timekeeper or the alternate will attend every PUG meeting.”

RECOMMENDATION NO. 6:

Two City Councilors had leave balances which are allowable only to City employees. One Councilor had 8 hours accrued Birthday Leave and another had 31.4 hours in accrued Compensation Time. These balances were carried forward from prior City employment.

OIAI recommended Council Services review the leave balance reports regularly and ensure that all leave balances are accurate.

Council Services responded that the audit recommendation had been implemented. The timekeeper was to review the accrued leave balances each pay period to ensure that all leave balances were accurate.

ACTION TAKEN

The audit recommendation has been fully implemented. OIAI reviewed each City Councilor's leave balances as of July 9, 2007 and noted no accrual balances.

RECOMMENDATION NO. 7:

Council Services did not obtain a Request for Permission to Engage in Employment Outside the City of Albuquerque Form (Form) for one of its employees. This is a requirement of the City's Personnel Rules and Regulations for any employee who wishes to engage in outside employment.

OIAI recommended Council Services comply with the City's Personnel Rules and Regulations requiring all employees who engage in outside employment complete the require Form.

Council Services responded that this recommendation had been implemented. There were no employees that were currently engaged in outside employment. Council Services was to remind the staff members of the requirement by January 31, 2006.

ACTION TAKEN

The audit recommendation has not been implemented. During our discussion with the director, we noted two employees are currently working outside of the City without the required Form completed.

The director stated that the staff was reminded of the outside employment requirement in January 2006 and that the Form was posted in the office. However, the posting was inadvertently removed. There have been several new employees who have started with the Council Services so the Form will be reposted and distributed to all current employees.

RECOMMENDATION

Council Services should complete the Form and obtain proper approval for the two employees currently working outside the City. Council Services should discuss this requirement at least annually and post the Form where it is easily accessible to all employees. Council Services should complete the Form prior to an employee engaging in outside employment.

RESPONSE FROM COUNCIL SERVICES

“The recommendation was implemented but not adequately followed through, but it will be in the future.

“The requirement will be discussed at least annually.

“The requirement is posted in an easily accessible place and the Form will be placed there as well.”

RECOMMENDATION NO. 8:

Council Services did not have proof of insurance for employees who received mileage reimbursement. Without proof of insurance there is a potential liability exposure to the City should the employee be injured while performing City business.

OIAI recommended Council Services ensure that employees who receive mileage reimbursement provide proof of insurance annually.

Council Services responded the audit recommendation had been implemented. No mileage will be reimbursed unless a properly approved request for reimbursement and a copy of proof of insurance for the vehicle driven is provided to the director. Council staff members seeking reimbursement will be asked to keep a copy of a current insurance card on file in the Council Office.

ACTION TAKEN

The audit recommendation has been partially implemented. We noted three out of the five employees that were paid mileage during FY07 did not have an insurance card in the file. We also noted that the timekeeper does not verify the current insurance card when paying mileage.

RECOMMENDATION

Council Services should ensure that employees provide proof of current insurance prior to receiving mileage reimbursement. The timekeeper should also verify that current insurance is in the employee file before submitting payment of mileage reimbursement.

RESPONSE FROM COUNCIL SERVICES

“All Council employees who receive mileage will have a current insurance card, and the timekeeper will verify that before submitting payment of mileage reimbursement.”

RECOMMENDATION NO. 9:

Unauthorized employees including the timekeeper picked up Council Services' paychecks. City departments complete a form that is on file with Treasury, which gives authorization to individuals to pick up payroll checks for their department.

OIAI recommended Council Services:

- ❖ Update its list of employees authorized to pick up payroll checks.
- ❖ Perform a periodic review of authorizations on file to ensure that information is current and that outdated authorizations are rescinded.
- ❖ Ensure the timekeeper does not have access to payroll checks.

OIAI recommended DFAS ensure that only authorized employees pick up payroll checks from Treasury.

Council Services responded that the recommendation had been implemented. The list of employees authorized to pick up payroll checks was updated in April and September 2005. The timekeepers are not on the list of authorized employees.

DFAS responded that they concurred with the finding and that only authorized employees should pick up payroll checks from Treasury. If departments are unable to have a designated employee pick up payroll checks then a courier may pick up the checks. The courier must present an official photo ID and have a memo signed by the department director identifying the courier and date of pick up.

ACTION TAKEN

The audit recommendation has been fully implemented. OIAI verified that authorized employees had picked up all pay checks issued during the months of February, March and April 2007.

RECOMMENDATION NO. 10:

Bi-Monthly PUG meetings inform timekeepers of new payroll information, payroll updates, or changes in payroll procedures. DFAS did not document the minutes of the PUG meetings. If the

official procedures discussed and distributed at PUG meetings are not documented timekeepers and other employees do not have a permanent resource.

OIAI recommended DFAS document items discussed at the PUG meetings.

DFAS responded they agreed that the items discussed at PUG meetings should be documented. An agenda is distributed prior to the meeting and a sign-in sheet documents attendance. DFAS will, as appropriate or necessary, distribute and maintain copies of documents relevant to the discussion items on the agenda.

ACTION TAKEN

The audit recommendation has been fully implemented. OIAI verified DFAS retained proper documentation of the PUG meetings held in calendar year 2006.

CONCLUSION

Council Services has fully implemented or resolved three of the nine recommendations noted in the initial audit. Four recommendations have been partially implemented and two recommendations have not been implemented.

Council Services should continue to work on implementing these recommendations to strengthen the payroll process and ensure compliance with City policies.

DFAS has fully implemented the one recommendation noted in the initial audit.

We appreciate the assistance and cooperation of Council Services and DFAS personnel during the follow up audit.

Principal Auditor

REVIEWED:

Internal Auditor

APPROVED:

APPROVED FOR PUBLICATION:

Carmen Kavelman, CPA, CISA, CGAP
Director
Office of Internal Audit & Investigations

Chairperson, Accountability in Government
Oversight Committee