

FOLLOW-UP REVIEW

CITY AUDITOR

Report Date:	February 12, 2019
Departments:	Financial Services and Human Resources
Subject:	Payroll and Timekeeping
Lead Auditor:	Karen Newman, Sr Internal Auditor

OBJECTIVE

The objective of this follow-up review was to determine whether the action plans presented in response to our November 2016 Payroll and Timekeeping audit have been effectively implemented.

SCOPE & METHODOLOGY

To accomplish our objective, we interviewed staff, reviewed written policies and procedures, and examined Payroll and Timekeeping transactions, reports, and documentation.

BACKGROUND

On November 30, 2016 we issued a report on our audit of Payroll and Timekeeping. The objective of the audit was to determine whether adequate internal controls are in place and operating effectively to provide reasonable assurance that payroll transactions are authorized, accurate, and processed in accordance with applicable laws, regulations, and City policies; and that if errors and/or fraud were to occur, they would be identified and addressed in a timely manner. The report included seven recommendations, summarized as follows:






1. Written procedures are needed for critical processes.
2. Improvement is needed in the efficient and effective use of technology for manual processes and calculations.
3. Additional controls are needed for the off cycle check process.
4. Improved controls are needed for the administration of insurance premium payments for employees on extended unpaid leave; and the rules governing this need to be reviewed/ revised to ensure consistency.
5. Additional controls are needed to ensure part-time non-benefitted employees are enrolled in ASRS when they meet the established criteria.
6. The processes used by various departments to assign employees to minimum staffing overtime shifts need improvement, to minimize the risks associated with excessive work hours, to promote fairness/equity in the distribution of available overtime among employees, and to responsibly manage the costs associated with overtime and future pension liabilities.
7. Citywide compliance with timekeeping policies and procedures needs improvement.



Both Payroll and Human Resources agreed with our recommendations and submitted action plans to address the findings.




CONCLUSION

Six of the seven recommendations have been implemented. One recommendation (#6 on the list above) was not implemented, as City management has not required departments to establish formal policies regarding the assignment of minimum staffing overtime shifts. A complete list of the original action plans, along with detailed information regarding their implementation status, is presented in the attached Appendix. No additional follow up review is planned at this time.



APPENDIX

 = Implemented  = In Progress  = Not Implemented		
Issue and Action Plan		Implementation Status
IAP#1: Written Procedures		
<p>Recommendation 1-1:</p> <p>Management should establish written procedures for all critical and complex payroll processes, including those associated with document management.</p> <p>Management Response:</p> <p>This recommendation is in process. The City hired a new Payroll Accountant January of 2016 and has updated/documented some of the payroll processes that had not previously been documented. In addition, all payroll staff have an existing PAF goal for FY 17 related to formally documenting procedures.</p> <p>To ensure that all procedures are documented and updated, Payroll will first develop a plan whereby we obtain a comprehensive list of all critical and complex payroll processes and identify which procedures need to be documented, have been updated but not reviewed, and which HRM test scripts need to be updated. Payroll staff will continue to document procedures until all procedures have been updated.</p> <p>Original Estimated Completion Date: 3/30/17</p>	<p>Implemented</p> <p>Written procedures have been documented for all critical and complex payroll processes.</p>	
<p>Recommendation 1-2:</p> <p>Written procedures should be actively maintained and updated; and should be organized in a single location, which should be readily accessible by all staff members who may need them.</p> <p>Management Response:</p> <p>As part of updating/documenting the payroll processes, Payroll will utilize SharePoint to store and organize the Payroll documentation and set alert/reminders to ensure payroll documentation is actively maintained and updated.</p> <p>Original Estimated Completion Date: 6/29/17</p>	<p>Implemented</p> <p>Payroll process documentation is maintained and updated as necessary, and is organized and stored in a single location accessible by all payroll staff.</p>	

IAP#2: Efficient and Effective Use of Technology		
<p>Recommendation 2-1:</p> <p>Recognizing that processes have continued to evolve in the months since our observations, we recommend that an updated assessment of the manual processes and methods in use by Payroll staff be conducted with the assistance of independent consultants or City staff with advanced skills in the use of Microsoft applications and other useful technologies. If opportunities for improvement are identified, resources, training, guidance, and support should be provided as needed to ensure maximum efficiency, accuracy, and consistency in manual payroll processes</p> <p>Management Response:</p> <p>There have been many changes and improvements of specific tasks. However, an updated assessment has not been performed. Payroll will obtain assistance to conduct an updated assessment and identify training needs to fill gaps, if necessary, for payroll staff.</p> <p>Original Estimated Completion Date: 7/31/17</p>	<p>Implemented</p> <p>Payroll sub-processes have improved and payroll staff has attended training.</p>	
IAP#3: Off Cycle Checks		
<p>Recommendation 3-1:</p> <p>Management should implement additional internal controls over the off cycle check process, to reduce the risk that errors or fraud could occur without being detected. Ideally, only payroll staff members below the Administrator level should have the ability to create these checks, which should require system workflow approval by the Payroll Administrator or above. If a workflow process cannot be implemented, other compensating controls should be added.</p> <p>Management Response:</p> <p>Currently workflow approval in HRM does not work successfully. When Payroll is fully staffed there are segregation of duties. Off cycle checks are done by someone other than the Payroll Administrator and approved by the Payroll Administrator. From time to time there are off cycle checks that are "sensitive" in nature that are done by the Payroll Administrator, these in the past were not reviewed.</p> <p>Payroll will identify additional reports and procedures that will include review by the Finance Director to add compensating controls to the process.</p> <p>Original Estimated Completion Date: 3/30/17</p>	<p>Implemented</p> <p>The off cycle check process has been improved to include proper approvals and segregation of duties.</p>	

IAP#4: Benefit Premiums for Employees on Extended Leave		
<p>Recommendation 4-1:</p> <p>Management should improve and document the procedures used to identify, calculate, and bill employees on unpaid leave for benefit premiums, to ensure accuracy, consistency, and compliance with City policies. The procedures should include: roles, responsibilities, and workflow; a reliable method of identifying the employees to be invoiced; and a reliable method to determine the premium amounts due.</p> <p>Management Response:</p> <p>A team has been formed to review the employees on leave to determine the best way to process billing, what amount employees are responsible for, and potential termination of benefits for non-payment. The team will submit a proposal of Policy and Procedural changes to the City Managers office to address the concerns outlined in the audit.</p> <p>Original Estimated Completion Date: 7/3/17</p>	<p>Implemented</p> <p>The insurance premiums billing process for employees on leave has been improved to ensure accuracy, consistency, and compliance with City policies. The improved process includes a reliable method for identifying the employees and the premium amounts to be invoiced.</p>	
<p>Recommendation 4-2:</p> <p>The City Manager should determine the circumstances, if any, under which employees will be required to pay the full cost of insurance premiums; and the City's Personnel Rules should be amended to be consistent with that determination.</p> <p>Management Response:</p> <p>The City Manager's Office agrees the amount employees are billed needs to be evaluated and will make a decision on the policy. Revisions to the Personnel Rules, Plan design document, and Management Policy will be made to reflect the decision made.</p> <p>Original Estimated Completion Date: 7/3/17</p>	<p>Implemented</p> <p>The City's Personnel Rules have been updated regarding insurance premiums payable by employees on leave.</p>	
IAP#5: PTNB Employees - ASRS Eligibility		
<p>Recommendation 5-1:</p> <p>Management should implement a reliable process to ensure that part-time non-benefitted employees that meet the 20/20 criteria are enrolled in ASRS. We recommend that a citywide PTNB report be developed and monitored by HR on a biweekly basis; and any employees who meet the criteria should be immediately enrolled in ASRS.</p>	<p>Implemented</p> <p>A report has been created for Time and Labor to identify part-time non-benefitted employees that meet the 20/20 criteria.</p>	

<p>Management Response:</p> <p>ITD has created a report for Time and Labor, to identify the number of hours part-time, non-benefited employees work. Time and Labor runs the report quarterly, in the 1st 2nd and 4th quarters (3rd quarter is the beginning of the new fiscal year, so there is no reason to run it until the 4th quarter), and then in June as needed (typically at least twice, depending on the amount of employees who are close, and how close they are). For employees who are nearing the requirement, Time and Labor sends a notification to their supervisor and department director to ensure they are aware of the requirement and to proceed with caution. If an employee meets the requirements, Time and Labor notifies the Department Director, HR Analyst, and Payroll Administrator that an employee is now eligible for enrollment into Arizona State Retirement system.</p> <p>Payroll has a process, that once notified by HR, employees that have met the 20/20 criteria are enrolled in ASRS for the remainder of the fiscal year.</p> <p>Original Estimated Completion Date: Complete</p>	<p>This report is reviewed quarterly throughout the year and monthly towards the end of the year.</p> <p>If a part-time non-benefited employee is enrolled in ASRS the Payroll department has a process to add the ASRS deduction to the employee's HRM profile.</p>	
<p>IAP#6: Assignment of Critical Staffing Overtime</p>		
<p>Recommendation 6-1:</p> <p>City management should require any department that uses critical/minimum staffing to implement a formal policy under which the assignment of those shifts is actively managed in a fair and equitable manner that ensures operational needs are met while also minimizing the risks associated with excessive work hours. Management should actively monitor compliance and enforce these policies.</p> <p>Management Response:</p> <p>The City Manager's Office agrees and will make changes to support minimizing the risk associated with excessive work hours. The new timekeeping policy will include verbiage that requires departments to establish a formal policy that fosters a fair and equitable way for overtime shifts to be assigned.</p> <p>Going forward, Time and Labor will provide a quarterly report to City management that identifies the overtime hours worked by department by employee, and an analysis of that data. If a trend is seen, City</p>	<p>Not Implemented</p> <p>City management and department directors have determined that a policy regarding the assignment of minimum staffing overtime shifts is not necessary.</p>	<p>X</p>

<p>management will notify the Department Director to investigate and act accordingly.</p> <p>Original Estimated Completion Date: 2/28/17</p>		
IAP#7: Compliance with Timekeeping Policies and Procedures		
<p>Recommendation 7-1:</p> <p>Management should finalize and issue Management Policy 400, Timekeeping and Leave Administration.</p> <p>Management Response:</p> <p>The management policy is drafted and is currently going through management review. After the comment period, the policy will be posted and available on InsideMesa.</p> <p>Original Estimated Completion Date: 3/6/17</p>	<p>Implemented</p> <p>Management Policy 400, Timekeeping and Leave Administration, has been finalized and issued.</p>	
<p>Recommendation 7-2:</p> <p>To minimize the risk of inaccurate paychecks, and to reduce the need for historical edits of timekeeping records, management should:</p> <ul style="list-style-type: none"> a) Require supervisors to open timecards prior to approving them. (At a minimum, this should apply to any timecards that contain exceptions.) b) Limit (to the extent possible and practical) the ability of supervisors to edit existing employee-generated punch times. c) Notify an employee if his/her timecard is changed after the employee approved it. <p>Management Response:</p> <p>Human Resources office agrees supervisor should not alter employees time without justification, further the timekeeping policy will require supervisors who make changes to document their reason for making the edit by adding a comment.</p> <ul style="list-style-type: none"> a) The new timekeeping policy will include verbiage that requires supervisors to open employee timesheets prior to approval, when appropriate. While we agree in most instances' supervisor should be required to open timecard and review them prior to approving them; there are certain instances when the group approval 	<p>Implemented</p> <p>Management Policy 400 has been updated to include supervisor responsibilities for approval and edits of timecards.</p> <p>Additional approval and historical edit information has been added to the timekeeping reports available to departments, to enable them to better monitor compliance.</p>	

capability is beneficial. Certain measures have been and will be put in place that encourages supervisors to review the timecard prior to approval, such as the Health Check document, the new PAF requirements, and the Timekeeping Policy.

The Kronos timekeeping system will be upgraded within the next year and the project team will continue to investigate future enhancements to minimize timecard errors.

- b) The new timekeeping policy will include verbiage that requires supervisors to add a comment to justify why they've edited an existing employee punch. This is an 'all or nothing' setting in KRONOS, so we cannot use the system to limit the ability. However, we recently worked with ITD to develop a report that shows punch audit data, so we can better track it and address issues when they arise. Additionally, punches are now a metric of the PAFs, and we have identified what punches are reasonable for a supervisor to add, and what are not. We are in the process of creating additional comments that can be used to provide justification for the reasonable edit. All others will be included on the Health Check data, so they can be addressed by departments on a regular basis.
- c) We are working on accomplishing this. There is a setting in the system that is currently turned on for employees, yet the emails are not being sent. We are troubleshooting with Kronos to determine what other system setting is keeping this from happening, and once we resolve that, we can implement this.

Original Estimated Completion Date: 4/3/17