

March 9, 1998

Internal Audit Report 98-08
Municipal Payroll
Finance Department

Introduction. Approximately 3,000 payroll checks totaling \$3.6 million are issued each pay period. Anchorage Municipal Code (AMC) 3.30, Annual Leave and Overtime; Municipal Policy and Procedure (P&P) 24-10, Approval and Retention of Employee Time and Attendance Records; Municipal P&P 40-9, Documenting and Approving Overtime; and the Municipal Payroll Clerks Manual all give guidance for the proper payment of Municipal employees.

Scope. The objective of this audit was to determine whether selected payroll transactions were accurate, properly supported and in compliance with the AMC and Municipal P&P requirements. The audit was conducted in accordance with generally accepted government auditing standards, except for the requirement of an external quality control review, and accordingly, included tests of payroll records and such other auditing procedures as we considered necessary in the circumstances. The audit period was from January through October 1997.

Overall Evaluation. Selected payroll transactions were generally accurate. However, they were not always properly approved or in compliance with AMC and Municipal P&P requirements. Overtime transactions and manual payroll checks were not always properly approved, terminated employees were not inactivated in the payroll system at the time of termination, and payroll guidelines did not address the completion of leave adjustment forms.

FINDINGS AND RECOMMENDATIONS

1. Overtime Transactions Were Not Always Properly Approved.

- a. **Finding.** Overtime transactions were not always properly approved. Our review of 121 randomly selected overtime transactions processed during the period January through August 17, 1997, revealed that 21 (17%) were not supported by a properly approved request for overtime. Of the 20 work units we reviewed, 10 contained at least one overtime transaction in the sample that was not supported by an approved request for overtime. Three of these areas did not use an overtime form to approve overtime hours to be worked. We are 95% confident that between 11% and 24% of the overtime transactions processed during January through August 17, 1997, were not supported by an authorized overtime request.
- b. **Recommendation.** The Employee Relations Department Director should remind all agencies of the requirements for overtime approval and documentation.
- c. **Management Comments.** Management stated, "Employee Relations concurs with the recommendation that a reminder should be sent to all agencies of the requirement for overtime approval and documentation."
- d. **Evaluation of Management Comments.** Management comments were responsive to the audit finding and recommendation.

2. Manual Payroll Checks Were Not Always Properly Approved.

- a. **Finding.** Manual payroll checks were not always properly approved. Our review of 39 randomly selected manual payroll checks issued during the period of January through August 1997, revealed that 16 (41%) lacked proper approval. Specifically,

we found two instances without a Manual Checks and Adjustment Request form, two instances where the Manual Checks and Adjustment Request form had not been approved, and 12 instances where the Manual Checks and Adjustment Request form was approved by the payroll clerk, the same person who prepared the form. We are 95% confident that between 26% and 56% of the manual checks issued during the period of January through August 1997 were not properly approved.

- b. **Recommendation.** The Chief Fiscal Officer should ensure that all manual payroll checks are supported by a properly approved Manual Checks and Adjustment Request form prior to processing the checks.
- c. **Management Comments.** Management stated, "Finance concurs with the recommendation and has taken steps to ensure that all manual payroll checks are supported by a properly approved Manual Checks and Adjustment Request form prior to processing the checks."
- d. **Evaluation of Management Comments.** Management comments were responsive to the audit finding and recommendation.

3. **Terminated Employees Were Not Inactivated in the Payroll System at the Time of Termination.**

- a. **Finding.** Individuals who terminated employment were not removed from the payroll system at the time of termination. Our review of 38 randomly selected terminations revealed that none of the terminated employees had received improper payroll checks. However, in 17 terminations, the employee remained in the system at least one pay period after the pay period in which they terminated. In one case, an employee remained in the system for two pay periods. This resulted in a time card

being generated and distributed after the termination date providing the potential for erroneous payroll transactions, overpayment and possible misappropriation.

- b. **Recommendation.** The Employee Relations Department Director should implement procedures to remove terminated employees from the payroll system during the pay period the employee terminates.
- c. **Management Comments.** Management stated, “Employee Relations concurs with the recommendation that procedures should be established to remove terminated employees from the payroll during the pay period in which the employee terminates. We plan to issue a reminder to agency heads and payroll clerks reinforcing this procedure. We also plan to run regular reports to identify employees who have not received recent compensation which may mean that employees have terminated and the proper paperwork has not been submitted.”
- d. **Evaluation of Management Comments.** Management comments were responsive to the audit finding and recommendation.

4. **Municipal Payroll Guidelines Did Not Address the Completion of Leave Adjustment Forms.**

- a. **Finding.** The Municipal Payroll Clerks Manual did not include procedures for the use of Leave Adjustment forms. The only comments referencing adjustments to leave state that the payroll clerk should fill out a Leave Adjustment form. Specific topics not provided are: 1) valid reasons for adjusting leave, 2) requirements for approval of the adjustment, 3) who the approving official should be, and 4) what supporting documentation should be on file. We observed instances of leave adjustments up to 40 hours without explanation for the adjustment or proper approval on the form submitted to payroll.

- b. **Recommendation.** The Employee Relations Department Director should revise the Municipal Payroll Clerks Manual to include procedures for revising employee leave balances.

- c. **Management Comments.** Management stated, “Employee Relations and Finance concur with the recommendation and will jointly revise the Municipal Payroll Clerks Manual to include procedures for use of Leave Adjustment forms, including valid reasons for adjusting leave, requirements for approval, approving officials, and required supporting documentation.”

- d. **Evaluation of Management Comments.** Management comments were responsive to the audit finding and recommendation.

Discussion With Responsible Officials. The results of this audit were discussed with appropriate Municipal officials.

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