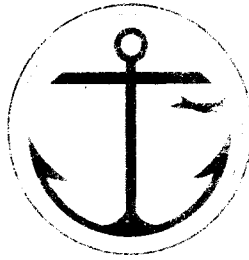


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April 10, 2000

Internal Audit Report 2000-5 Non-Standard Payroll Procedures

Introduction. Municipal Policy and Procedure (P&P) 24-10, "Approval and Retention of Employee Time and Attendance Records," requires each employee to enter the hours on his/her timecard which must be signed by both the employee requesting compensation and the immediate supervisor. Exceptions to the requirements of P&P 24-10 must be approved in writing by the Chief Fiscal Officer and the Internal Auditor. The following Municipal organizations had been granted exceptions to the standard payroll procedures: Anchorage Police Department (APD), Anchorage Fire Department (AFD), Municipal Light and Power (ML&P), Public Transportation Department, Fleet Services Division of Property and Facility Management, Facility Maintenance Division of Property and Facility Management, and Street Maintenance Division of Public Works Department. Municipal payroll is processed through the PeopleSoft Human Resources (HR) Payroll System, implemented January of 1999.

Scope. The objectives of this audit were to determine whether the seven organizations that were not following standard payroll procedures had been granted an exception by the Chief Fiscal Officer and the Internal Auditor and whether the approved exception procedures were being followed. In addition, we tested the accuracy of selected payroll transactions during 1999. 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 accounting records and such other auditing procedures as we considered necessary in the circumstances. The audit was performed during the period of July through December 1999.

Overall Evaluation. The Chief Fiscal Officer had granted an exception to the seven organizations that were not following standard payroll procedures. In general, the approved written payroll

exception procedures were outdated in most of the organizations reviewed and were not consistent with the actual procedures being followed under the new PeopleSoft HR Payroll System. Payroll input errors were not always detected because input was not verified by some payroll sections. Overtime pay at APD was not made timely due to internal processing delays.

FINDINGS AND RECOMMENDATIONS

Anchorage Police Department

1. Approved Exception Procedures Were Outdated.

- a. Finding.** The approved written payroll exception procedures were outdated and not consistent with the procedures being followed under the PeopleSoft HR Payroll System. In addition, all APD employees have been included under the exception procedures and thus do not complete their own timecards. The intent for an exception to the standard payroll procedures is to make provisions for those employees who have a difficult time preparing and signing their own timecard due to unique work hours or duty location. Exempting all employees from completing their own timecard, including those that work a standard work schedule in a central location, places an undo burden on the payroll clerks and increases the risk of errors as noted in Finding 3 below.
- b. Recommendation.** The written payroll exception procedures should be revised to describe the current payroll procedures used under the PeopleSoft HR Payroll System and be submitted to the Chief Fiscal Officer for approval. In addition, only those employees whose work hours or duty location make it difficult to prepare and sign their own timecard should be exempted from the requirements of P&P 24-10.

- c. **Management Comments.** Management stated, "This finding makes two recommendations:

"Concerning the first, APD concurs with the Municipal Auditor that the approved exception procedures are outdated and need to be revised to include peoplesoft procedures. As we understand it, a new payroll clerk's manual for all municipal payroll clerks in all departments is in draft form at city hall, and it will include the recent updates to the peoplesoft system when it is published. Our best information is that it may be delayed somewhat because of the necessity of including recent peoplesoft changes; however, it will be revised, published and distributed as soon as possible. Prudent administrative action requires APD to receive that document before publishing a more detailed procedure for the department. APD intends to use the municipal manual, once it is published, as the basis for a more detailed set of procedures specific to APD.

"The second recommendation states that only those employees who work irregular hours or duty locations should be exempted from the requirements of P&P 24-10. APD concurs with the Municipal Auditor that "signing for their own time" is a procedure not currently in place for regularly scheduled, normal business day employees. While APD foresees some formidable problems with the establishment of two payroll systems for the department rather than one, APD intends to work closely with the Municipal Auditor to formulate a workable system, if possible."

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

2. **Overtime Not Always Paid Timely.**

- a. **Finding.** Overtime was not always paid timely because overtime requests were received by the Payroll Section after the pay period in which the overtime was worked. Some of the reasons for the delay were untimely internal approvals, overtime forms retained for third party billings prior to forwarding to the Payroll Section, and untimely Court personnel signatures required for court appearances. As a result, employees were not paid overtime in a timely manner.
- b. **Recommendation.** The procedures for processing overtime should be improved. Overtime requests should be approved by the supervisor prior to the overtime in accordance with P&P 40-9, Documenting and Approving Overtime. Third party billings should be performed after the overtime request has been submitted to the Payroll Section for processing. In addition, the need for Court personnel signatures on the overtime requests for court appearances should be evaluated. It may be more efficient to process the departmentally approved overtime request in the proper pay period and match the overtime request to additional supporting documentation for court appearances after the payroll has been processed.
- c. **Management Comments.** Management stated, "APD concurs with the Municipal Auditor that overtime pay is not always paid timely. As recommended, APD intends to review all overtime procedures including issues involving prior approval, third party billings, and court involvement. Again, APD requests the Municipal Auditor work with the department to streamline procedures and create a more timely system."
- d. **Evaluation of Management Comments.** Management comments were responsive to the audit finding and recommendation.

3. Payroll Input Not Verified.

- a. Finding.** Payroll input was not being verified for accuracy by APD Payroll Section personnel. As a result, input errors were not being detected resulting in inaccurate leave balances, pay rates and specialty allowances. Our sample of 50 time sheets revealed 6 errors which had not been detected by Payroll Section personnel. The errors were as follows:
- leave entered as hours worked (3 instances)
 - specialty allowance entered when employee was on sick leave (1 instance)
 - meal allowance not entered (1 instance)
 - a shift differential was entered twice (1 instance)
- b. Recommendation.** Payroll Section personnel should verify payroll input for accuracy. All errors should be corrected prior to approving payroll.
- c. Management Comments.** Management stated, "APD concurs with the Municipal Auditor that a tighter system of verifications should be created for leave entries, specialty allowance entries, meal allowances, shift differentials, and other related time accounting entries. To correct this finding, APD is initiating more aggressive procedures by the APD Payroll/Personnel Office to spot check itself and take more random samples of its data entries each pay period. Any errors discovered before the payroll deadline will be corrected prior to approving time for payment."
- d. Evaluation of Management Comments.** Management comments were responsive to the audit finding and recommendation.

Anchorage Fire Department

1. Approved Exception Procedures Outdated.

- a. **Finding.** The approved written payroll exception procedures were outdated and not consistent with the procedures being followed under the PeopleSoft HR Payroll System. In addition, all AFD employees have been included under the exception procedures and thus do not complete their own timecards. The intent for an exception to the standard payroll procedures is to make provisions for those employees who have a difficult time preparing and signing their own timecard due to unique work hours or duty location. Exempting all employees from completing their own timecard, including those that work a standard work schedule and in a central location, places an undo burden on the payroll clerks and increases the risk of errors.

- b. **Recommendation.** The written payroll exception procedures should be revised to describe the current payroll procedures used under the PeopleSoft HR Payroll System and submitted to the Chief Fiscal Officer for approval. In addition, only those employees whose work hours or duty location make it difficult to prepare and sign their own time should be exempted from the requirements of P&P 24-10.

- c. **Management Comments.** Management stated, "I concur with the finding that the department's current written payroll exceptions procedures should be revised to describe the current procedures used under the PeopleSoft HR Payroll System and submitted to the Chief Fiscal Officer for approval."

Action to be Taken:

On or before Monday, May 1, 2000, submit a written update to the department's current payroll exceptions procedures to the Chief Fiscal Officer which describes the

procedures presently used under the PeopleSoft HR Payroll System and outlines the department's specific exception requests for approval.

"Upon receiving written confirmation from the Chief Fiscal Officer, I will forward a copy of the approved payroll exceptions procedures to the Director of Internal Audit."

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

Municipal Light and Power

1. **Longevity Bonus Not Always Paid.**

- a. **Finding.** The longevity bonus was not always included in an employee's pay. Our review of timecards for the November 7 pay period revealed that, for 2 of 20 employees, the longevity bonus was not included in the computation of gross wages. This occurred because ML&P manually computes the rate of pay for employees with longevity and who are receiving acting pay. The computed rate is entered to the ML&P pre-payroll system which interfaces with the PeopleSoft HR Payroll System rate as an override rate. In the two instances noted, the longevity portion was not included as part of the computation due to an oversight. These errors were detected after the payroll was processed and corrective action was taken during the audit.
- b. **Recommendation.** The longevity bonus should always be included in the computation of gross wages when applicable. Alternatives to a manual calculation should be investigated to alleviate the risk of errors and oversight inherent in manual calculations.

- c. **Management Comments.** Management stated, "ML&P has submitted a system modification request to our IS Division to have the ML&P pre-payroll system automatically factor longevity on override rates (when applicable), thereby eliminating the need for the manual computation. The estimated completion date for this modification is June 1, 2000."

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

Public Transportation Department

- 1. **Incorrect Meal Allowance Code Was Used.**
 - a. **Finding.** An incorrect meal allowance code (MEA) was used on employee timecards. This caused the meal allowance to be included in the FLSA overtime rate calculation overstating the FLSA overtime payments. Using the meal allowance code "MAP" keeps the meal allowance from being included in the FLSA calculations under the PeopleSoft HR Payroll System.

 - b. **Recommendation.** The coding error was corrected during the audit. However, the dollar impact of the error on the 1999 payroll should be assessed and corrective action taken as necessary.

 - c. **Management Comments.** Management stated, "The Public Transportation Department concurs with the finding and recommendation. The correction was made as noted and the effect of prior miscoding was determined to be very minor and no further reviews are contemplated."

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

2. **Approved Payroll Exception Procedures Were Not Current.**

- a. **Finding.** The approved written payroll exception procedures were outdated and not consistent with the procedures being followed under the PeopleSoft HR Payroll System. Some changes to the process have been made and new reports are used as a result of the implementation of the PeopleSoft HR Payroll System.
- b. **Recommendation.** The written payroll exception procedures should be updated and approved by the Chief Fiscal Officer and the Internal Auditor in accordance with P&P 24-10.
- c. **Management Comments.** Management stated, "The Public Transportation Department concurs with the finding and recommendation. The pending upgrades to the PeopleSoft applications may cause changes in the current procedures. Additionally, the Department is assessing the Time and Attendance systems alternatives including the acquisition of a "Front End" computer application that would automate the process. The effects of both the PeopleSoft upgrade and the automation of the current time card system will be considered, and the payroll exception procedures will be updated this year accordingly."
- d. **Evaluation of Management Comments.** Management comments were responsive to the audit finding and recommendation.

Property and Facility Management

Facility Maintenance Division

1. Approved Payroll Exception Procedures Were Not Current.

- a. **Finding.** The approved written payroll exception procedures were outdated and not consistent with the procedures being followed under the PeopleSoft HR Payroll System. Some changes to the process have been made and new reports are used as a result of the implementation of the PeopleSoft HR Payroll System.
- b. **Recommendation.** The written payroll exception procedures should be updated and approved by the Chief Fiscal Officer and the Internal Auditor in accordance with P&P 24-10.
- c. **Management Comments.** Management stated, "Property & Facility Management concurs with the Auditors Finding regarding "Approved Payroll Exception Procedures were not Current". Steps are being taken to rewrite the Payroll Exceptions Procedures to reflect the changes in the procedures that have occurred with the new PeopleSoft program."
- d. **Evaluation of Management Comments.** Management comments were responsive to the audit finding and recommendation.

2. Time Documents Not Always Authorized.

- a. **Finding.** Overtime Request forms and Acting Assignment Pay Authorization Request forms were not always approved by the Department Director prior to payroll processing. Specifically, of the 22 employees tested for the pay period ending September 26, four employees' overtime request forms and three employees' acting

request forms were not approved by the Department Director. In addition, leave without pay hours were not supported by an authorized leave slip for one employee.

- b. **Recommendation.** The unscheduled overtime request forms and acting authorization request forms should be submitted to the Department Director for approval in a timely manner. All leave should be supported by properly authorized leave slips.
 - c. **Management Comments.** Management stated, "Property & Facility Management concurs with the finding of the Auditors report, which states "Time Documents Not Always Authorized". Written documentation has gone out to all division managers and staff indicating that all documents needing approval are to be authorized prior to the date on the document. Attached to this document was Municipal Policy and Procedure 40-9 (Documenting and Approving Overtime)."
 - d. **Evaluation of Management Comments.** Management comments were responsive to the audit finding and recommendation.
3. **Call-Out Pay Was Not Always Correctly Computed.**
- a. **Finding.** Call-out pay was not always computed correctly by payroll personnel. Our sample of 22 employees revealed one employee was underpaid \$5.55 and two employees were overpaid \$2.06 and \$.74 respectively for call-out pay when the call-back guarantee portion of the call-out pay was not correctly computed.
 - b. **Recommendation.** The contract provisions for call out pay (JCC Article 5.8) should be strictly followed to ensure that pay is computed properly.

- c. **Management Comments.** Management stated, "Property & Facility Management concurs with the Internal Auditors finding regarding "Call-Out Pay was not always Correctly Computed". Steps have been taken to check and double check all Call-Out and, Call-Out Guarantee Pay that is worked. The computation is being checked by 2 additional people before the amount is submitted to payroll."
 - d. **Evaluation of Management Comments.** Management comments were responsive to the audit finding and recommendation.
4. **Timecard Data Was Not Always Accurately Entered.**
- a. **Finding.** Timecard data was not always accurately entered into the payroll system for payment. Our sample of 22 timecards revealed one instance where eight hours of sick leave was entered as regular hours worked. Although verification procedures were in place, the error was not detected.
 - b. **Recommendation.** Payroll input should be carefully reviewed for accuracy and all errors corrected prior to approving time for payment. In addition, the employee's leave record should be corrected to record the eight hours of sick leave.
 - c. **Management Comments.** Management stated, "Property & Facility Management concurs with the Internal Auditors findings regarding "Timecard Data Was Not Always Accurately Entered". Steps have been taken for the individual supervisors to check the approve time report that is generated when payroll is entered, to insure that employees time has been entered correctly into the payroll system. If an error is found the payroll clerk can adjust the time accordingly."
 - d. **Evaluation of Management Comments.** Management comments were responsive to the audit finding and recommendation.

Public Works Department
Street Maintenance Division

1. **Timecard Data Was Not Always Accurately Entered.**

- a. **Finding.** Timecard data was not always accurately input to the payroll system. Our sample of 89 timecards revealed four errors which had not been detected by payroll personnel. Although verification procedures were in place to review the accuracy of data input, all errors were not being detected. The errors were as follows:
- training entered as regular time (1 instance)
 - annual leave entered as sick leave (1 instance)
 - shift pay entered improperly (1 instance)
 - regular time overstated (1 instance)
- b. **Recommendation.** Payroll input should be carefully reviewed for accuracy and all errors corrected prior to approving time for payment. In addition, employee time records should be corrected as necessary.
- c. **Management Comments.** Management stated, "Since the consolidation of Payroll, non-standard payroll procedures have been eliminated. All payroll procedures are consistent with Municipal Policies and Procedures. Payroll input is reviewed for accuracy and all errors are corrected prior to approving time for payment. Employee time records are corrected as necessary and a copy is sent to them."
- d. **Evaluation of Management Comments.** Management comments were responsive to the audit finding and recommendation.

Employee Relations Department

1. FLSA Overtime Rate Not Always Computed Properly.

- a. Finding.** The FLSA overtime rate was not always properly computed in the PeopleSoft HR Payroll System. For example, the overtime premium on shift differential pay was included in the computation of the FLSA overtime rate overstating the FLSA rate. We also found that longevity pay for holidays and annual leave days was included in the FLSA overtime rate computation even though the computation excluded the annual leave and holidays (pay period ending July 18). In addition, the FLSA overtime rate computation included holidays that were not worked since the labor contract considered the holidays as hours worked.

- b. Audit Comment.** These issues were discussed with management and corrective action was implemented to resolve the discrepancies during the audit.

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

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