



CITY OF GARLAND, TEXAS

PAYROLL

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Report 0711

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CITY OF GARLAND

AUDIT #0711

PAYROLL

OVERALL EVALUATION

- A pay code intended for reporting grant salaries is used for other purposes.
- Regular, overtime, and holiday pay can be recorded on a day other than the holiday.
- There is a need for additional segregation of duties in the payroll processing system.
- The payroll system permits an employee to approve and change payroll batches without further review by management.

BACKGROUND

The payroll processing system is a combination of efforts from the Human Resources and Financial Services Departments. Human Resources manages the maintenance of personnel records, such as the employee master record, pay rates, work schedules, payroll deductions, and job assignments, while Financial Services processes the bi-weekly timesheets that are input by the user departments. Personality 2000 (P2K) is the software application used to manage the personnel records and process payroll.

The Managing Director for Human Resources is responsible for administering the City's personnel directives as well as ensuring compliance with Federal and State employment laws and regulations. Internal controls and procedures related to the payroll processing systems are the responsibility of the Managing Director for Financial Services.

The Managing Directors of user departments designate staff members who will enter the bi-weekly timesheets and those who will approve the time entry. These designations are made at the director's discretion.

SCOPE AND OBJECTIVES

Our examination was conducted in accordance with Generally Accepted Government Auditing Standards that included tests of the City's records, policies, directives, and other auditing procedures deemed necessary under the circumstances. The objectives of the examination were:

- Evaluate the adequacy of internal controls over establishing payroll records, adding, and deleting employees from the system.
- Evaluate the adequacy of internal controls over the preparation and distribution of payroll checks.
- Evaluate the adequacy of department control of overtime usage for selected departments.

METHODOLOGY

This review involved interviews with Human Resources and payroll management and staff. Reports, procedure manuals, and other documents related to employee compensation were examined. The work papers include copies of user documents, emails, and narratives written by the audit staff to describe observations, conclusions, and recommendations. The period under review included processes and reporting in effect at September 30, 2006.

MANAGEMENT ACCOMPLISHMENTS

The payroll area of the City of Garland Accounting Department processes payroll for over 2000 employees on a biweekly basis with one employee performing all of the necessary processes. In addition to providing the biweekly pay and annual stability pay, the payroll function is responsible for remitting the biweekly TMRS contributions and accompanying report, and paying all vendors relating to the biweekly payroll including all child support agencies, the deferred compensation carriers, bankruptcy garnishment agencies and supplemental insurance vendors. The payroll function is also responsible for compiling and distributing W-2's for every City employee, paying the payroll taxes for the biweekly payroll, and filing the quarterly payroll reports to the Internal Revenue Service and Texas Workforce Commission. All payroll-related calls are fielded by the two payroll area employees and any research stemming from employee and/or management inquiries is handled by them as well.

AREAS FOR IMPROVEMENT

1. WE FOUND MISUSE OF PAY CODE 241.

The original intent of code 241 was to use it only for STEP grant. Using code 241, an officer can receive overtime pay during the same week the officer records sick time. The Police Department has expanded the use of code 241 to other activities such as motorcycle repairs, Boxing Gym, and Red Light Camera violations. In our analysis, seventeen officers used the code for reporting their time. Of the seventeen officers, six used the code for purposes other than the original intent.

The use of code 241 is contrary to the City's policy for calculating overtime. Human Resources Directive #4 on Employee Compensation states in item 9.2, "...full-time employees work a 40 hour work week and those who are non-exempt under the Fair Labor Standards shall be compensated at 1.5 times their regular rate for hours worked in excess of forty per week." Section 9.6 states "for the purpose of computing overtime or compensatory time, "hours worked" includes actual working time (including government business and training time, holidays and vacation leave). Sick time is not considered hours worked for determining overtime.

By using code 241, the half-time pay differential was overpaid by almost \$1,000 in 2006. While the financial impact is low, our concern about this situation is that the practice is contrary to the established policies and FLSA.

RECOMMENDATION

The Senior Managing Director, Human Resources and Risk Services should review Directive #4 as it relates to the Fair Labor Standards Act (FLSA) rules for calculating overtime and how the Police Department is using code 241. If the practice of paying overtime during weeks of sick leave is to continue, the Directive should be amended and management informed of the change.

If the practice is allowed to continue, the Chief of Police should implement procedures to ensure the proper use of pay code 241. The Police Department payroll approvers should have a monitoring process to review the use of the pay code and initiate corrective action when the code is misused.

RESPONSE

The Chief of Police recognizes that this departmental practice has been in place since the early to mid 1990's. However, the Chief agrees that the current

practice is not in compliance with the City's revised policy for calculating overtime. There are no FLSA (Fair Labor Standards Act) or other regulations that require the department to continue to operate under the current procedure. Therefore, the Chief of Police agrees that the departmental procedure regarding such overtime calculations shall be amended to be in compliance with the revised city policy. This shall occur as soon as the technical changes of the automated payroll and billing system can be completed by the police department in coordination with the Human Resources Department and the Financial Services Department; hopefully, no later than the end of January, 2008, if not sooner.

2. WE FOUND MISUSE OF HOLIDAY PAY

Per Human Resources Directive #6, Holidays and Leave, item 1.2.3, employee's that work on a designated holiday, or if the employee is called out on an assignment on a holiday, the employee may receive holiday pay and payment for hours worked, or may retain the holiday hours to be taken later within the calendar year. If an employee's scheduled day off falls on a designated holiday then the employee may take the holiday later within the calendar year but should not be allowed to take their holiday pay on a workday.

We found employees who did not work on the scheduled holiday. Subsequently, they were paid holiday pay on another workday. The result of recording holiday and regular hours on the same day is the employee is paid overtime for the week because the hours exceeded 40 hours in the period. As cited in Finding 1, Human Resources Directive #4 allows overtime for hours worked in excess of 40 hours per week. Holiday pay is a "good leave code" that is used in calculating overtime.

During calendar year 2006, six employees who took holiday pay on an actual workday were overpaid approximately \$22,000. This practice should be disallowed as the directive states that holiday pay will only be paid to those employees whose scheduled workday falls on a designated holiday or are called out to an assignment. Appendix A is included to show the summarized overtime cost for each employee in 2006.

RECOMMENDATION

The Senior Managing Director, Human Resources and Risk Services should review Directive #6 as it relates to holiday and regular pay on a day other than the scheduled holiday. The practice of recording both pays should be clarified and the Managing Directors informed. The Managing Directors can provide the information to their managers so the policy is uniformly applied to all departments. Additionally, oversight is required of all payroll authorization staff to ensure compliance with this directive.

RESPONSE

In reference to Payroll Audit #0711 Item 2, Human Resources and Finance agree there is a possible misuse of coding Holiday Pay. An exploratory meeting was held on November 15, 2007 among representatives from HR, Finance, and Garland Power and Light regarding some GP&L employees being coded for Holiday(s) when they were neither scheduled to nor do they report to work on that particular day. This situation of coding Holiday(s) as described above would possibly result in overtime being calculated in accordance with FLSA guidelines for that week since their normal work schedule would already consist of forty (40) regular hours. This meeting was intended to bring awareness to GP&L of how this practice impacts overtime. There was a general consensus of agreement at the conclusion of the meeting and furthermore GP&L stated they are reducing the number of budgeted overtime hours for the next year and those overtime hours would be monitored. Finance will follow up by reviewing a sample of GP&L employees and the coding of their Thanksgiving, Christmas and New Year's Holidays. They will then give their findings to Audit, Budget and HR.

3. SEGREGATION OF DUTIES

3a. THE PAYROLL TECHNICIAN PERFORMS OVERLAPPING DUTIES.

Due to the small staff in the Payroll section, the Payroll Technician has authority to perform many duties, e.g. change work hours, approve time, add and change some deductions, and issue and void checks all of which are done by court orders, e-mails or other documentation allowing her to make necessary changes. All changes made by the Payroll Technician are reviewed and approved by her immediate supervisor.

The Payroll Technician has two user identification codes. One permits her to perform all the changes and deductions. The second code is used when she approves time.

Segregation of duties provides a control to reduce the opportunity for fraud. The ability to issue checks, void checks, and reconcile the account provides an opportunity to create payments. The ability to increase time worked and approve those changes provides one person the chance to increase their own compensation.

3b. THE TIME ENTRY SYSTEM LACKS THE PROPER SEGREGATION OF DUTIES.

When a manager wants to grant permission for an employee to have access to the payroll system, the manager will send an e-mail to Information Technology (IT) giving the name of the employee and the type of authority needed. The authority can be to only enter time or enter and approve time. IT grants the authority per the e-mail submitted by the manager. The Payroll Technician is notified by IT after the access is granted.

Ideally, the person authorized to approve time should be a supervisor or manager. The system access granted to the approver conflicts with sound internal controls and segregation of duties because the person can control the transaction from beginning to end without oversight or review. Compensating controls are required to limit the risk of unauthorized changes in the time entry system.

A change is needed in the software application to limit the approver's authority. The IT Department tells us the software developer would have to make the necessary program changes.

RECOMMENDATIONS

3a. The Managing Director for Financial Services should ensure the Payroll Technician does not have the access or authority to approve anyone's time. If a department's time needs to be approved, the approval should come from at least the Payroll Supervisor and not the Payroll Technician.

3b. The Payroll Supervisor should generate a report of authorized users and submit the report to the Managing Directors for their review. The Managing Directors should perform reviews at least twice a year of all employees with access to P2K time entry and approvals. The updated reports from the Managing Directors will be reviewed by the Managing Director for Financial Services and the Payroll Supervisor. Concerns about access and authority levels can be discussed with affected managers. The amended reports will be forwarded to IT for system updates.

The Managing Director for Financial Services and IT should contact the software developer to determine if there is a way to change the system to where an "approver" could only approve time without having access to changing time. If the vendor states that a "change" can be made then a decision will have to be made to determine if the costs justify the change.

RESPONSES

Finding #3a

The audit recommends that the Managing Director for Financial Services should ensure that the Payroll Technician does not have access or authority to approve anyone's time, and if a department's time needs to be approved, that the approval comes from at least the Payroll Supervisor and not the Payroll technician.

The Finance Department partially concurs with this recommendation. The Finance Department set up the security (in the form of a separate logon) for the Payroll Technician to approve time for those rare occasions when upper management was not available to do so. In order to expedite the payroll process, such as on holiday pay weeks, when payroll processing has to be started on a Sunday and the Payroll Technician is working alone, it is necessary for the Payroll Technician to be able to approve time (if necessary) to proceed with processing in a timely manner. Almost all time approval is done by the Managing Director of Financial Services, Payroll Supervisor or Cash Manager during normal pay weeks.

The Finance Department will work with IT to develop a monitoring report to review when and why the Payroll Technician approves other departments' time, as corrective action for resolving this finding. Our target date for using the monitoring report is the first quarter of 2008 at the earliest, depending on whether IT can have the monitoring report ready for use by this time.

Finding #3b

The audit recommends that the Payroll Supervisor generate a report of authorized users and submit the report to the Managing Directors for their review.

The Payroll Supervisor concurs with this recommendation. The Payroll Supervisor will work with IT to develop a report of authorized users that will be reviewed annually and be distributed to Managing Directors. Any Finance Department concerns regarding individual department authorized approvers will be brought to their attention at that time, for department management to consider and take action. The review of authorized users will not take place until after the month of January, once the year-end processes and W2 generation and distribution is completed.

The audit also recommends that the Managing Director for Financial Services and IT should contact the software developer to determine if there is a way to change the system to where an "approver" could only approve time without having access to changing time. The Finance Department partially concurs with this recommendation. The payroll software company Highline is presently in the

process of moving all of their clients to a new version of the software and will not be making any changes to the present version. The Finance Department will contact the City of Garland's representative at Highline to determine if a change to the new version is possible, and if so, what the cost may be. We intend to contact Highline before the end of calendar 2007.

Appendix A

Summarized Holiday and Overtime Pay

Employee A	\$	3,566
Employee B		3,128
Employee C		1,730
Employee D		2,181
Employee E		2,067
Employee F		1,909
Employee G		3,128
Employee H		2,754
Employee I		<u>1,727</u>
Total Overtime Pay	\$	<u><u>22,189</u></u>