PAYROLL AUDIT REPORT

OF THE

MAYOR'S OFFICE

AND THE

CHIEF ADMINISTRATIVE OFFICER DEPARTMENT

REPORT NO. 04-111

CITY OF ALBUQUERQUE
OFFICE OF INTERNAL AUDIT AND INVESTIGATIONS

City of Albuquerque
Office of Internal Audit and Investigations
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Accountability in Government Oversight Committee
City of Albuquerque
Albuquerque, New Mexico

Audit: Payroll Audit
Mayor's Office and the Chief Administrative Officer Department
04-111

FINAL

INTRODUCTION

The Mayor's Office supports the top elected official of the City of Albuquerque. The Mayor is the elected chief executive and ceremonial head of the City pursuant to the City Charter. The office is composed of support staff and constituent services that keep the Mayor in touch with residents of Albuquerque.

The Chief Administrative Officer Department (CAO's Department) supports the top executive office of the City of Albuquerque as well as general city functions. The CAO's Department includes the Office of the CAO, the City Clerk's Office, the Office of Economic Development, the City Hearing Officer, the Office of Police Review and Oversight, the Office of Emergency Management, and the Budget Office, which also includes the Office of Management Oversight and Improvement. The Chief Administrative Officer (CAO) is appointed by the Mayor with the consent of the City Council to provide day-to-day management of the City. Together, the Mayor and CAO provide the leadership and direction to execute policies legislated by the City Council.

The Mayor's Office and CAO's Department combined have seven administrative assistants whose duties include timekeeping. These individuals are responsible for the payroll of 57 employees. The Mayor's Office total approved operating budget for fiscal year (FY) 2006 is $812,000. Approximately 76% of this amount, $621,000, is for the salary and benefit costs of seven full time positions. The CAO's Department total approved operating budget for FY2006 is $7,272,000. Approximately 57% of this amount, $4,162,000, is for the salary and benefit costs of 57 full time positions.

AUDIT OBJECTIVES

The objectives of our audit were to determine:

- Are time cards, time sheets, adjustments and Leave of Absence Forms (P-30s) properly approved and completed?
- Does supporting documentation exist for leave taken?
- Are upgrades, salary changes and other compensation properly approved?
- Are payroll transactions performed in compliance with applicable laws, policies and regulations?

SCOPE

This audit and its conclusions are based on a review of the Mayor's Office and CAO Department's payroll procedures and an examination of various transactions and reports. Our fieldwork was completed on August 20, 2004. This report is based on our examination of the auditee's activities through completion date of our fieldwork and does not reflect events or accounting transactions subsequent to that date.

Our audit did not include an examination of all the functions, activities, and transactions related to the operations of the Mayor's Office and CAO's Department. A review of internal controls relating to payroll was made to assure management that payroll regulations and procedures are being properly administered. Our audit test work was limited to payroll transactions for pay period ending May 14, 2004 and for the twelve months ending May 14, 2004. Payroll records for fourteen employees of the Mayor's office and CAO's Department were examined over a twelve month period.

The audit was conducted in accordance with Government Auditing Standards, except Standard 3.49, which requires an external quality control review.

METHODOLOGY

We reviewed the Mayor's Office and CAO's Department processing of payroll, supporting documentation for entries to the City's automated payroll system. We reviewed practices followed for the approval and review of payroll transactions according to City payroll policies and procedures. We randomly and judgmentally selected employees for payroll tests of transactions.

Auditee's Introduction

"Before responding specifically to the findings in this report, the CAO respectfully submits the following general comments about the payroll related to the Office of the Mayor and the Office of the CAO. The Office of the Mayor is a very small unit of City government, averaging about seven employees. All of these employees are unclassified and serve at the pleasure of the Mayor, the chief elected official of the City.

"The Office of the CAO, on the other hand, for budget purposes and apparently for the purposes of this internal audit, includes not only the Office of the CAO, but also the City Clerk's Office, the Office of Economic Development, the City Hearing Officer, the Office of Police Review and Oversight, the Office of Emergency Management, and the Budget Office, which also includes the Office of Management Oversight and Improvement. As a practical matter, each of these separately budgeted units operates as an independent unit and not as an integral part of the Office of the CAO, with a person in each ancillary unit designated to ensure compliance with City rules and regulations. Historically, the Office of the CAO has not exercised regular administrative control over these units.

"From an administrative point of view, the Office of the CAO is also a small unit of City government, averaging about eight employees. As in the Mayor's Office, all of these employees, including the CAO and the three deputy CAOs, are unclassified and serve at the pleasure of the Mayor.

"If there were classified service employees in the Office of the Mayor and the Office of the CAO, they clearly would be covered by the Merit System Ordinance and the Personnel Rules and Regulations. However, only limited provisions of the Personnel Rules and Regulations, general labor law and federal employment rules and regulations would seem to apply to those employees in the unclassified service. There is also a conundrum occasioned by the City Charter. For example, while under general employment practices, an employee's supervisor would approve leave, the Mayor is prohibited by the City Charter from being involved in personnel actions. That provision leaves open the question, then, of who exactly should approve leave for those unclassified employees who report to the Mayor.

"It is also important to note that as a general rule, under federal FLSA rules, unclassified employees are not entitled to overtime because they fall under the executive exemption. Historically, the expectation of the Mayor is that these unclassified employees work whatever hours are necessary to accomplish their job assignments, usually well over the traditional forty hours per week expected of employees in the classified service.

"Until now, there has been no written guidance for how units of City government comprised primarily of unclassified employees should meld into the provisions of the Merit System Ordinance and the Personnel Rules and Regulations given their somewhat unique status

under federal and state labor laws and regulations. The CAO commits to formalizing written guidance for future use by the end of FY/06 to cover this issue."

FINDINGS

The following findings concern areas, which we believe would be improved by the implementation of the following recommendations.

1. THE MAYOR'S OFFICE AND CAO'S DEPARTMENT SHOULD ENSURE THAT A PROPER SEPARATION OF DUTIES EXISTS FOR THE PAYROLL FUNCTION.

The two timekeepers for the Mayor's Office and the CAO's Department have full access and control from start to finish with no supervisory review. The timekeepers for the Mayor and CAO's department both interchangeably enter payroll for each department. They enter their own payroll, make changes/adjustments, pick up paychecks and distribute the paychecks. A single employee should not record payroll transactions, reconcile leave records, and have physical control of payroll checks. Such internal control weaknesses have the potential for manipulation of the system.

The concept of separation of duties is based on the need to separate custodial responsibility, accounting responsibility, and operational responsibility. This approach provides a system of checks on the competency and integrity of personnel and processes.

RECOMMENDATION

The Mayor's Office and the CAO's Department should ensure timekeepers do not have access to payroll checks. Management should ensure that the data input and adjustments into the payroll system are reviewed to ensure the accuracy of the data.

RESPONSE FROM THE CAO

"While the CAO agrees that separation of duties is a fundamental concept in internal control, it is often difficult to achieve in small work units. However, the Offices of the Mayor and the CAO will attempt to identify individuals other than the assigned timekeepers to pick up and distribute paychecks by the February, 2006 pay periods. The CAO will also direct the heads of the ancillary units included in the CAO's budget to take similar action."

2. THE MAYOR'S OFFICE AND THE CAO'S DEPARTMENT SHOULD ENSURE THAT CITY PAYROLL PROCESSING PROCEDURES ARE FOLLOWED.

Payroll records were reviewed for a random sample of six employees in addition to all seven timekeepers and one supervisor from the Mayor's Office and CAO's Department. The payroll records were examined for the pay period ending May 14, 2004 and for the twelve months ending May 14, 2004. Payroll records for fourteen employees of the Mayor's office and CAO's Department were examined over a twelve month period. Records reviewed included Timesheets, P-30s, Hours Adjustment Forms, Upgrade Forms, and other leave records. Our tests were designed to determine whether the Mayor's Office and the CAO's Department personnel were complying with City record keeping and supervisory requirements.

For the twelve month period ending May 14, 2004 the following was noted.

A. Payroll Forms Not Signed by Employee or Approved by Supervisor

Three of the fourteen employees tested had payroll documents which were missing either the employees' or supervisors' signatures. One of the employees was a timekeeper. Twenty P-30s were missing supervisory approval for another of these employees.

City of Albuquerque Administrative Instruction No. 7-6 Leave of Absence Form (P-30) Policy states, "Approval for leave of any type must be obtained from the department director or designated representative."

B. Vacation Hours Incorrect

Three employees had errors in vacation time posted. One timekeeper and one management employee took vacation that was not deducted from their vacation leave balance. One manager had vacation hours deducted twice.

In these instances, the P-30 forms and payroll history reports were not in agreement. If the supervisors had compared the P-30s to the payroll records the discrepancies would have been found. As a result, the employees' leave balances may be incorrect, which could result in incorrect payment to the employees.

C. Personnel File Missing Form Authorizing Leave of Absence

Two of the 14 employee files sampled were missing P-30s which documented and approved 16 hours of sick leave and 8 hours of vacation leave.

Administrative Instruction No. 7-6, Leave of Absence Form (P-30), states, "All leave shall be coded correctly on the revised Leave of Absence Form (P-30) in order to properly identify the type of leave being taken. . . . Department Directors and supervisory staff are responsible for insuring that the procedures for accurately recording leave are followed and that records and supporting documentation are properly maintained."

In a memorandum from the City's Chief Administrative Officer dated June 16, 1998, Elimination of Time Sheets, states, in part, "Departments should retain copies of the P-30 for at least 3 years since these will be the official record of leave. . . Supervisors will ensure that employees file P-30's for time not worked."

D. <u>P-30s Not Completed Correctly</u>

A review of P-30s for a 12-month time period was performed. We noted seven of the 14 employees tested completed the P-30s incorrectly. The P-30s were missing:

- social security numbers
- pay units
- department/division name
- times absent
- employee and/or supervisor approval signatures
- employee and/or supervisor dates of signatures

Administrative Instruction No. 7-6, Leave of Absence Form (P-30), states, "Department Directors and supervisory staff are responsible for insuring that the procedures for accurately recording leave are followed and that records and supporting documentation are properly maintained."

Instructions for completing the P-30 form require identifying information including name, employee number/social security number, payroll unit, department and division of the employee requesting the leave.

City of Albuquerque Personnel Rules and Regulations state, "All City records, including reports, vouchers, requisitions, payroll and personnel records must be prepared factually and accurately. It is the personal obligation of the employee completing such records as well as the supervisor to ensure that such records are accurate and comply with federal, state, and City record-keeping and accounting requirements."

E. Changes to Employee Payroll Histories

Six out of the seven timekeepers for the Mayor and CAO were not documenting changes to employees' histories.

- Two timekeepers wrote memos documenting changes but did not obtain the employee's signature or supervisor's approval.
- Four timekeepers were unaware of the requirement to document changes made to employees' histories.

The timekeepers made numerous adjustments to hours worked without documenting with Hours Adjustment Forms. We can not determine if adjustments are approved or appropriate if they are not properly documented.

For the pay period ending May 14, 2004, there were five employees who had adjustments made to their history that did not have approved adjustment forms on file.

Adjustment forms are required when corrections or changes are made to an employee's prior period work hours, rate of pay, or vacation and sick leave accruals. Adjustment forms should be signed by the timekeeper who makes the change, by the employee for whom the change is made, and by a supervisor approving the change. The adjustment form documents the reason a change is being made to an employee's history.

City of Albuquerque Personnel Rules and Regulations state, "All City records, including reports, vouchers, requisitions, payroll and personnel records must be prepared factually and accurately. It is the personal obligation of the employee completing such records as well as the supervisor to ensure that such records are accurate and comply with federal, state, and City record-keeping and accounting requirements."

RECOMMENDATION

The Mayor's Office and CAO's Department should improve its payroll processing and supervisory review procedures by:

- Ensuring that employees and supervisors properly complete and then sign and date all payroll forms.

- Ensuring that all payroll data is input into the payroll system and is reviewed for accuracy.

- Ensuring procedures are developed to assure that employee payroll files are complete and that payroll documentation is properly maintained.

RESPONSE FROM THE CAO

"The position of Chief of Staff has recently been filled in the Mayor's Office so necessary supervisory review procedures can be reinstated with the February, 2006 pay periods. The CAO will identify staff in the Office of the CAO to perform the necessary supervisory review beginning with the February, 2006 pay periods. The CAO will also direct the heads of the ancillary units included in the CAO's budget to take similar action to ensure adequate supervisory review in the units.

"As opposed to many larger departments, timekeeper duties in the Offices of the Mayor and the CAO, and the ancillary units, are not a full-time assignment. The plethora of rules and regulations can be difficult to deal with when the employee does not work with them on a daily basis. The CAO has requested that the Payroll Unit in the Accounting Division of DFAS prepare a basic manual for the use of timekeepers in the Offices of the Mayor and the CAO, and the ancillary units. This manual is expected to be available to timekeepers by May, 2006."

3. THE MAYOR'S OFFICE AND CAO'S DEPARTMENT SHOULD ENSURE THAT EMPLOYEES SUBMIT EXCEPTION REPORTS OR TIMESHEETS AS REQUIRED.

Six employees out of 59 tested for a two week pay period did not complete a timesheet for exempt employees or a timesheet which documents either exceptions or no exceptions to standard work schedule for employees as required by city policy and the Fair Labor Standards Act (FLSA). These timesheets record exceptions to the employees' regular work schedule, such as vacation leave, sick leave and other paid and unpaid absences. Five of these employees were non-exempt unclassified employees and one employee was an exempt classified M14. These employees were unaware that they should be completing timesheets or exceptions to standard work schedule.

The City of Albuquerque requires that exempt employees below grade M15 prepare exception reports each biweekly pay period. A June 16, 1998, letter from the Chief Administrative Officer to all department directors stated: "timesheets will no longer be required of management employees at the grade of MP-5 [M15] and higher. Instead, time keepers will use P-30's as the basis for calculating and reporting hours into the payroll system . . ."

Non-exempt employees are subject to FLSA which states an employee must be paid for time worked. The Fair Labor Standards Handbook, Paragraph 800 Recordkeeping Requirements state, "With respect to employees subject to the FLSA's minimum wage and overtime provisions, the following records are required (29 C.F.R. paragraph 516.2): hours worked each workday and total hours worked each workweek (29 C.F.R. Paragraph (2)(7))."

RECOMMENDATION

The Mayor and CAO should ensure that employees are submitting Timesheets and Exception to Standard Work Schedule reports as required by FLSA and C.F.R.

Timesheets and Exceptions to Standard Work Schedule reports and timesheets should be signed and dated by the employee and his supervisor.

RESPONSE FROM THE CAO

"As noted earlier in the opening comments in this response, the employees working in the Offices of the Mayor and the CAO, as opposed to the ancillary units, tend to be unclassified employees. Those employees are clearly subject to the provisions of the Fair Labor Standards Act (FLSA), although the majority of them, if not all, fall under one or more available exemptions and are not entitled to overtime, regardless of the number of hours worked in a pay period. A new Administrative Instruction will be prepared by June, 2006 to provide guidance to those unclassified employees on reporting time worked that is in compliance with FLSA guidelines.

"The heads of the ancillary units to the Office of the CAO will be reminded to review with their employees in the classified service, their responsibilities with respect to the proper reporting of time worked under FLSA and City guidelines."

4. THE MAYOR'S OFFICE AND CAO'S DEPARTMENT SHOULD ENSURE THAT THE EMPLOYEE AUTHORIZATION TO PICKUP PAYROLL CHECKS IS KEPT UP TO DATE.

The Department of Finance and Administrative Services Department, Treasury Division (Treasury,) is required to have completed forms that give authorization for individuals to pick up payroll checks for their departments on file. Treasury's list of authorized employees is not current. Of the four employees authorized, two are the timekeepers and two no longer work for the Mayor or CAO's Departments.

RECOMMENDATION

The Mayor's Office and CAO's Department should ensure that an authorization to pick up payroll checks on file with Treasury is kept up to date.

The Mayor's Office and CAO's Department should periodically review authorizations to ensure that information is current and that outdated authorizations are rescinded.

RESPONSE FROM THE CAO

"The Chief of Staff in the Mayor's Office and a designated person in the CAO's Office will review existing authorizations to pick up payroll checks and make any necessary changes by March, 2006. Authorizations will be changed when there are changes in staff or their assignments.

"The CAO will direct the heads of the ancillary units included in the CAO's budget to take similar action to ensure that authorizations are current in the units, and that changes are made as necessary."

5. THE MAYOR'S OFFICE AND THE CAO'S DEPARTMENT SHOULD ENSURE THAT THERE IS A SUPERVISORY REVIEW OF THE PAYROLL PROCESS.

Although there is a partial supervisory review of the payroll process within the CAO's office, there is no supervisory review of the payroll process within the Mayor's Office. Therefore, timekeepers enter payroll from start to finish with no supervisory review.

The responsibility for ensuring that time reported by employees is accurate and properly entered lies with management. Supervisors should review timesheets, exception reports, P-30s, and adjustments and sign these forms to indicate their agreement and approval.

City of Albuquerque Personnel Rules and Regulations state, "All City records, including reports, vouchers, requisitions, payroll and personnel records must be prepared factually and accurately. It is the personal obligation of the employee completing such records as well as the supervisor to ensure that such records are accurate and comply with federal, state, and City record-keeping and accounting requirements."

RECOMMENDATION

There should be a proper review and approval of all timesheets, leave requests and adjustments prior to giving these documents to the timekeepers.

RESPONSE FROM THE CAO

"The position of Chief of Staff has recently been filled in the Mayor's Office so necessary supervisory review and approval procedures can be reinstated with the February, 2006 pay periods. The CAO will identify staff in the Office of the CAO to perform the necessary supervisory review and approval beginning with the February, 2006 pay periods. The CAO will also direct the heads of the ancillary units included in the CAO's budget to take similar action to ensure adequate supervisory review and approval in the units."

6. THE MAYOR'S OFFICE AND CAO'S DEPARTMENT SHOULD ENSURE THAT THERE IS MANAGEMENT REVIEW OF THE GENERAL LEDGER OVERRIDE REPORT.

There is no management review of the CAO's general ledger override report. Approximately 17% of the CAO's full time employees have payroll activity accounts that are overridden.

Individual payroll costs are charged to a specific cost center and activity account as part of the payroll process. However, the system allows these charges to be overridden and charged to a different cost center. Upon review, the following overrides were noted:

A. Two Assistants to the Mayor had an override to the CAO payroll activity accounts.

B. One Office Assistant in the City Clerks Office had payroll costs overridden to Transit Sun Van Administration.

C. Four employees in the CAO Department had payroll costs overridden back to the CAO Department.

D. Two employees permanently assigned to the Mayor's Office had payroll costs charged to Public Works.

E. Two temporary employees had their payroll costs split between four different departments which included AFD, APD, Public Works, and Environmental Health.

If payroll costs are not charged to the correct department, personnel costs could be understated or overstated for the Mayor and CAO Departments. Documentation should be maintained which justifies and explains all general ledger overrides.

RECOMMENDATION

The Mayor's Office and CAO's Department should ensure that payroll cost center overrides and other reports are reviewed monthly to ensure that the payroll function is operating as intended.

RESPONSE FROM THE CAO

"Prior Internal Audit reports have found similar issues in other departments with the general ledger override report. When the City upgraded the payroll system, it appears that existing overrides were simply migrated from the old to the new system with no review. The CAO will direct staff in the Offices of the Mayor and the CAO, plus all ancillary units, to review general ledger overrides prior to the end of the fiscal year."

7. THE HUMAN RESOURCES DEPARTMENT (HRD) SHOULD DOCUMENT LONGEVITY PAY FOR ALL CITY EMPLOYEES.

Three employees in the CAO's Department may be receiving longevity pay in error.

Personnel Rules and Regulations do not have a policy that allows unclassified or non-union employees to receive longevity pay.

RECOMMENDATION

HRD should verify applicable rules and regulations and document longevity pay for all City employees.

RESPONSE FROM HRD

"HRD respectfully notes that City Personnel Rules and Regulations do not prohibit the payment of longevity pay to unclassified or non-union employees. Historically, unclassified and non-union employees have received compensation benefits similar to those of classified, union employees. In addition, longevity pay has long been regarded as an entitlement attached to a specific employee. As a result, when employees were promoted or transferred from a classified, union position to a non-union or unclassified position, the existing longevity pay to which they were entitled under the union contract followed them.

"The existing union contracts include, in some cases, substantive changes to longevity pay programs that have caused the Administration

to re-address the issue of longevity pay for unclassified and non-union employees. A new Administrative Instruction addressing longevity pay, if any, for unclassified and non-union employees is expected to be issued by June, 2006."

8. THE MAYOR AND CAO SHOULD REQUIRE MANDATORY PUG MEETING ATTENDANCE.

The timekeepers do not consistently attend the Payroll User Group (PUG) meetings every other month. An agenda of the meeting topics and handouts are given out at the meetings.

Quarterly Payroll User Group (PUG) meetings inform timekeepers of new payroll information, payroll updates, or changes in payroll procedures.

RECOMMENDATION

The Mayor's Office and CAO's Department should require mandatory PUG meeting attendance.

RESPONSE FROM THE CAO

"The CAO agrees that timekeepers should attend Payroll User Group (PUG) meetings to enable them to keep abreast of changes in payroll procedures and to learn from their peers. Because timekeepers in the Offices of the Mayor and the CAO, and the ancillary units, generally have numerous other assigned duties that could conflict with attendance at PUG meetings, the CAO is not convinced that mandatory attendance is practical. However, the CAO will encourage timekeepers to attend PUG meetings when possible."

9. THE CAO SHOULD DEVELOP A MANAGERIAL LEAVE POLICY.

A CAO's Department employee has a managerial leave balance. Personnel Rules & Regulations, Section 402.7, states, "Managerial leave may be granted only as the result of a pre-existing plan or program authorized by the Chief Administrative Officer (CAO) which provides specific criteria, including the maximum award for such leave." The CAO does not have a documented Managerial Leave Plan.

RECOMMENDATION

The CAO's Department should develop a Managerial Leave Policy.

RESPONSE FROM THE CAO

"The CAO respectfully notes that an employee who was promoted or transferred from another department or unit with a managerial leave policy to the Office of the Mayor or the CAO, or an ancillary unit, may have properly had a managerial leave balance at the time of the promotion or transfer. However, the CAO agrees that if an ancillary unit of the Office of the CAO has an informal managerial leave policy, it should be documented. The heads of the ancillary units will be directed to prepare written managerial leave policies by June, 2006."

10. THE MAYOR'S OFFICE AND CAO'S DEPARTMENT SHOULD ENSURE THAT OUTSIDE EMPLOYMENT FORMS ARE COMPLETED AND ON FILE.

Two employees with outside employment did not have the Request For Permission to Engage in Employment Outside the City of Albuquerque forms on file. On April 16, 2004, a memorandum from the Human Resources Department was issued stating that ". . . the procedure for requesting approval for outside employment is not being followed." The memorandum reviewed the outside employment approval process as required by Personnel Rules and Regulations. Absent these forms there is potential for conflicts of interest.

City Personnel Rules and Regulations Section 310. Employment Outside The City Service states, "All employees must obtain the written permission of the department director and concurrence of the Human Resources Director allowing them to engage in outside employment." Section 310.2 Approval of Outside Employment states, "Outside employment may be authorized for a period up to one (1) year and must be approved on a year-to-year basis. Requests must be submitted prior to engaging in outside employment and renewed in January of each year. Employees approved for outside employment may not work more than a total of sixty (60) hours per week for City service and outside employment combined."

RECOMMENDATION

The Mayor's Office and CAO's Department should require compliance with the City's Personnel Rules and Regulations regarding outside employment.

RESPONSE FROM THE CAO

"The CAO will issue a memo to all employees in the Offices of the Mayor and the CAO, and to the heads of the ancillary units, reminding them of the requirements for completing the Request for Permission to Engage in Employment Outside the City."

11. THE CAO'S DEPARTMENT SHOULD ENSURE THAT PROOF OF INSURANCE REQUIREMENTS ARE MET FOR MILEAGE REIMBURSEMENT.

The CAO's Department did not have proof of insurance for employees who receive mileage reimbursement. Without proof of insurance there is a potential liability exposure should the employee be injured or cause injury to someone while performing City business.

The Chief Administrative Officer's Risk Management Manual Section 7.50 Use of Personal Vehicle for City Business states "Employee's who utilize their personal vehicle for City business will be reimbursed for mileage upon submitting both a properly approved request for reimbursement and a copy of proof of insurance for the vehicle driven. Proof of insurance shall be a copy of either the declarations page of the insurance policy or a copy of the insurance card carried in the vehicle."

RECOMMENDATION

The CAO's Department should require employees who receive mileage reimbursement to provide proof of insurance.

RESPONSE FROM THE CAO

"The CAO respectfully notes that recent changes to the City Operators Permit (COP) program now require proof of insurance as part of the licensing process for employees who use their personal vehicles for City business. The CAO will recommend that the Risk Manager make appropriate changes to the Risk Management Manual to reflect this change."

12. THE MAYOR'S OFFICE AND CAO'S DEPARTMENT SHOULD ENSURE THAT PAYROLL EXCEPTION REPORTS ARE RUN PRIOR TO PAYROLL PROCESSING.

Mayor's Office and CAO's Department timekeepers did not always run the Exception Reports as required, which could leave payroll errors undetected. Exception (Error) 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.

RECOMMENDATION

The Mayor's Office and CAO's Department should ensure that timekeeper run Exception Reports as required.

RESPONSE FROM THE CAO

"As noted in the responses to Findings Number 2 and 5, timekeeper duties in the Offices of the Mayor and the CAO, and the ancillary units, are not full-time assignments. The plethora of rules and regulations can be difficult to deal with when the employee does not work with them on a daily basis. The CAO has requested that the Payroll Unit in the Accounting Division of DFAS prepare a basic manual for the use of timekeepers in the Offices of the Mayor and the CAO, and the ancillary units. This manual is expected to be available to timekeepers by May, 2006. Proper use of this manual should ensure that timekeepers run exception reports as required."

13. DFAS SHOULD DOCUMENT PAYROLL USER GROUP (PUG) MEETINGS.

Quarterly Payroll User Group (PUG) meetings inform timekeepers of new payroll information, payroll updates, or changes in payroll procedures. DFAS does not document the minutes of the PUG meetings for future reference.

If the official procedures discussed and distributed at PUG meetings are not documented, timekeepers and other employees do not have a permanent resource. Timekeepers who are hired after a topic is discussed at a PUG meeting will be operating with incomplete information.

RECOMMENDATION

DFAS should document items discussed at PUG meetings.

DFAS should consider developing a payroll policy manual that includes all payroll policies.

RESPONSE FROM DFAS

"DFAS agrees that items discussed at PUG meetings should be documented. Each meeting has an agenda that is distributed prior to the meeting, and attendance is documented by a sign-in sheet. DFAS will, as appropriate or necessary, distribute and maintain copies of documents relevant to the discussion items on the agenda.

"PUG meetings are not intended to establish policy or procedure. These meetings are an informal venue for timekeepers to share common problems and solutions and for DFAS to provide guidance within established policies and procedures. On-line help incorporates payroll

policies and procedures for both new and experienced users. DFAS has organized information via on-line help into a hard copy "ABC for Timekeepers" as a quick reference guide."

CONCLUSION

We recommend that the Mayor's Office and the CAO's Department payroll processing and supervisory review procedures are properly reviewed. Complete and accurate payroll forms are required. The City requires adjustments to employee balances and forms for outside employment be completed and approved promptly.

We appreciate the assistance and cooperation of the personnel of the Mayor's Office and the Chief Administrative Officer's Department during this audit.

REVIEWED:

______________________________	______________________________
Principal Auditor	Senior Information System Auditor
APPROVED:	**APPROVED FOR PUBLICATION:**
______________________________	______________________________
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