

PAYROLL AUDIT REPORT

OF THE

COUNCIL SERVICES DEPARTMENT

REPORT NO. 04-112



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
Council Services Department
04-112

FINAL

INTRODUCTION

The Office of Internal Audit and Investigations performed a payroll audit of the Council Services Department (Council Services). Council Services consists of three units of organization - Legislative/Council Support Services, Constituent Services and Community Relations, and Policy Evaluation and Development Services. The department operates under the guidance of the Director of Council Services.

Council Services' total approved operating budget for fiscal year (FY) 2006 is \$2,105,000. Approximately 82% of this amount, \$1,745,000, is for salary and benefit costs. Council Services has 21 approved full time positions for FY06.

AUDIT OBJECTIVES

The objectives of our audit were to determine:

- Are time cards, time sheets, adjustments and P-30s, the form that documents the employees' use of sick and vacation leave and other absences, 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 Council Services payroll procedures and an examination of various transactions and reports. Our fieldwork was completed on December 29, 2004. This report is based on our examination of the auditee's activities through the 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 Council Services. 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 October 1, 2004 and for the twelve months ending October 31, 2004. Payroll records for five employees 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 review.

METHODOLOGY

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

FINDINGS

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

1. COUNCIL SERVICES SHOULD ENSURE THAT CITY PAYROLL PROCESSING PROCEDURES ARE FOLLOWED.

Five out of eighteen full time employee payroll records were examined for the twelve months ending October 2004. Records examined included Timesheets, Request for Leave of Absence Forms (P-30s), Hours Adjustment Forms, Upgrade Forms, and other leave records. Our tests were designed to determine whether Council Services personnel were complying with City record keeping and supervisory approval requirements.

For the twelve-month period ending October 31, 2004, the following was noted:

A. Missing Leave of Absence Forms

Six P-30s requesting and authorizing sick and vacation leave for one employee were missing.

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."

B. Payroll Forms Not Approved by Supervisor

One P-30 on file was missing the supervisor's signature authorizing the leave.

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."

C. Leave of Absence Forms Not Completed Correctly

There were eight occurrences where P-30s were submitted but not properly completed. The pay unit, department name, date signed and date approved was missing on several forms.

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 state that identifying information including name, employee number/social security number, payroll unit, department and division of the employee requesting the leave is required.

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.”

D. Adjustment Forms Not Completed

Adjustment forms for changes made to vacation and sick leave balances were missing for two of the employees in the sample.

Adjustment forms are used when corrections or changes are made to employee’s work hours, rate of pay, or vacation and sick leave accruals. Adjustment forms should be signed by the timekeeper, by the employee, and by a supervisor. The adjustment form should document why a change is being made to an employee’s work hour history.

E. Leave of Absence Form Should Be Submitted and Approved Timely

Two out of eight P-30s requesting vacation and sick leave were approved 10-12 days after the vacation or sick leave was taken. 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.” In addition it states, “Vacation Leave must be requested in advance.”

F. Supervisory Review

The payroll supervisor did not review or approve the Time Card Detail Report (TCD). Without adequate review there could be entry errors to the automated payroll system, and employees could be receiving incorrect pay and leave allocations. If entries to the payroll system are not reviewed, there is potential for unauthorized changes to the automated payroll system.

The Council Services management has the ultimate responsibility for ensuring that the payroll function is operating in accordance with City rules and regulations.

RECOMMENDATION

Council Services should ensure that:

- Payroll supervisors and timekeepers attend training to strengthen control over the payroll function.
- Input into the payroll system is promptly reviewed to ensure the accuracy of the data, and employees and supervisors sign and date all payroll forms.

- Procedures are developed to ensure that P-30 forms are accurate and properly completed. Supervisors should ensure that all P-30s are complete with the pay unit of the employee, the employee's department and division, time requested, and are signed and dated by employee and supervisor.
- All payroll changes and corrections are made using the "Hours Adjustment Form."
- P-30s are submitted and approved on a timely basis.
- Procedures are developed to ensure that employee payroll files are complete and that payroll documentation is properly maintained.

RESPONSE FROM COUNCIL SERVICES

"The audit recommendation has been implemented. The office payroll processing and supervisory review procedures were reviewed and changes were made. The Council office timekeeper and alternate have again attended training (November, 2005) regarding payroll procedures. All staff members have been reminded of the requirement to submit approved Leave of Absence forms in a timely manner, and timesheets and leave forms are being compared by the timekeeper to ensure that all leave is supported by a Leave of Absence form. All Council staff members are being reminded of the requirement to obtain prior approval for any vacation leave taken. All Council staff members are being reminded to provide all information required on the leave forms, including dates signed and approved. Each staff member has been issued a card containing the pay unit number and his or her "employee number." Supervisors and the timekeeper will no longer accept leave forms that are not fully completed. The timekeeper will check each leave form for all signatures and will return to the employee any form that is not properly signed. Adjustment forms will now be used and signed by the timekeeper, the employee, and the supervisor. The director now reviews and approves the Time Card Detail Report for entry errors."

2. COUNCIL SERVICES SHOULD ENSURE THAT THERE IS A SEPARATION OF PAYROLL DUTIES.

Council Services does not have separation of duties within the payroll process. The timekeeper for Council Services has full access and control of the payroll process. The timekeeper enters payroll, makes changes and adjustments to payroll records, and picks

up and distributes the paychecks. A single employee should not record payroll transactions, reconcile leave records, and have physical control of payroll checks.

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

Council Services should ensure that:

- Payroll duties are assigned to more than one employee to ensure a separation of duties.
- Data input and adjustments into the payroll system are reviewed to ensure the accuracy of the data.
- Timekeepers do not have access to payroll checks and an employee independent of the payroll system should distribute payroll checks.

RESPONSE FROM COUNCIL SERVICES

“The audit recommendation has been implemented. The duties within the payroll process were separated in November, 2004. The pick up and distribution of paychecks is being handled by a trained (April, 2005) and authorized employee who is independent of the payroll system, and another independent employee has been trained and authorized to act as the alternate. Data input and adjustments are being reviewed for accuracy by the director.”

3. COUNCIL SERVICES SHOULD ENSURE THAT ADJUSTMENTS ARE MADE TO LEAVE ACCRUALS FOR EMPLOYEES ON LEAVE WITHOUT PAY.

During the twelve months ended October 2004, sick and vacation accruals were not adjusted for employees who were on leave without pay. Five employees who took leave without pay continued to receive full vacation and sick leave accruals. Leave without pay ranged from 20 to 80 hours per pay period. Vacation and sick leave accruals should have been prorated based upon the number of paid hours worked. Employees could have taken vacation and sick leave which was not earned.

City of Albuquerque Personnel Rules and Regulations address accruals when an employee is on personal leave without pay. “In the event an employee exhausts their paid vacation leave (401.2)/paid sick leave (401.4) during a pay period the accruals must

be prorated based on the number of paid hours during the pay period.” Section 401.11 Family and Medical Leave states, “During paid FMLA leave, sick and vacation leave will continue to accrue and will be prorated if appropriate. Sick and vacation leave will not accrue during any unpaid FMLA leave.” The section also states, “Employees on leave without pay for eight (8) hours or more per pay period will not accrue sick or vacation leave or any other benefits.”

RECOMMENDATION

Council Services should ensure that adjustments are made to leave accruals for employees on leave without pay

Council Services should ensure that employee’s sick and vacation leave accruals/balance are properly reviewed and adjusted. If vacation or sick leave was taken which was not earned by the employee then the City should be reimbursed for this time.

RESPONSE FROM COUNCIL SERVICES

“The audit recommendation has been implemented. The timekeeper and director have reviewed the pertinent City Personnel Rules and Regulations, and all accruals for leave without pay will be reviewed for proper adjustments by the timekeeper and the director.”

4. COUNCIL SERVICES SHOULD ENSURE THAT PAYROLL EXCEPTION REPORTS ARE REVIEWED.

Council Services timekeeper did not 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

Council Services should ensure its timekeeper run Exception Reports as required.

RESPONSE FROM COUNCIL SERVICES

“The audit recommendation has been implemented. The timekeeper is running and reviewing payroll Exception Reports as required during each pay week. The director is also reviewing the reports.”

5. TIMEKEEPER SHOULD ATTEND PERSONNEL PAYROLL USER GROUP MEETINGS.

The timekeeper does 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 PUG meetings inform timekeepers of new payroll information, payroll updates, or changes in payroll procedures.

RECOMMENDATION

The Council Services timekeeper should consistently attend PUG meetings in order to have all current payroll information.

RESPONSE FROM COUNCIL SERVICES

“The audit recommendation has been implemented. The timekeeper had been attending Personnel Payroll User Group meetings, but the auditor found that the timekeeper had not attended the meetings consistently. The timekeeper will attend all of the PUG meetings or will make arrangements for the “back up” timekeeper to attend any meeting she is unable to attend. The timekeeper will keep the materials handed out at the PUG meetings in a central location and will share pertinent information from the meetings with the back up timekeeper.”

6. COUNCIL SERVICES SHOULD ENSURE A MONTHLY REVIEW OF ACCRUED SICK, VACATION, AND COMPENSATION LEAVE EARNED BY EMPLOYEES.

Two City Councilors, had leave balances which are only allowable to City employees. One Councilor had 8 hours accrued Birthday Leave, and another City Councilor had 31.4 hours in accrued Compensation Time. These balances were carried forward from prior City employment.

Leave balances should be deleted when employees leave City employment. City Ordinance Chapter 3: City Employees states, “All employees in the city service shall be divided into unclassified service and classified service. Elected officials and members of boards, commissions and authorities who are not employees of the city shall not be covered by the classified or unclassified service.” City Councilors are elected officials and should not have the rights and benefits provided by the Merit System Ordinance, and should not have Birthday Leave nor Compensation Leave balances.

RECOMMENDATION

Council Services should review its leave balance report on a regular basis, to ensure that all leave balances are accurate.

RESPONSE FROM COUNCIL SERVICES

“The audit recommendation has been implemented. The timekeeper will review accrued leave balances during each pay week to determine that all leave balances are accurate. The timekeeper will continue to correct or remove any leave balances that are inaccurate or that were not deleted when employees or City Councilors left City employment. In some cases the balances should have been deleted by other departments, however, the Council timekeeper will take responsibility for correcting the records.”

7. COUNCIL SERVICES SHOULD ENSURE THAT OUTSIDE EMPLOYMENT FORMS ARE COMPLETED AND ON FILE.

Council Services did not obtain, Request for Permission to Engage in Employment Outside the City of Albuquerque Forms.

Council Services did not have a current outside employment form on file for one of its employees. On April 16, 2004, a memorandum from the Human Resources Department was issued to all departments 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. These forms are necessary to prevent possible conflict of interest.

City Personnel Rules and Regulations Section 310. 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. . . 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

Council Services should comply with the City’s Personnel Rules and Regulations and require all employees who engage outside employment to complete the required form.

RESPONSE FROM COUNCIL SERVICES

“The audit recommendation has been implemented. There are no employees that are currently engaged in outside employment, however, Council staff members will be reminded by January 31, 2006 of the procedure for obtaining approval of outside employment, and the April 16, 2004 memorandum from the Human Resources Department will be distributed to all staff members and posted in the office.”

8. COUNCIL SERVICES SHOULD ENSURE THAT PROOF OF INSURANCE REQUIREMENTS ARE MET FOR MILEAGE REIMBURSEMENT.

Council Services does not have proof of insurance for employees who receive mileage reimbursement. Without proof of insurance there is a potential liability exposure to the City should employees be injured 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

Council Services should ensure that employees who receive mileage reimbursement provide proof of insurance annually.

RESPONSE FROM COUNCIL SERVICES

“The audit recommendation has been implemented. No mileage will be reimbursed unless a properly approved request for reimbursement and a copy of proof of insurance for the vehicle driven is provided to the director. The Council staff members will be reminded by January 31, 2006 of the proof of insurance requirement. Council staff members seeking reimbursement will be asked to keep a copy of a current insurance card on file in the Council office.”

9. COUNCIL SERVICES SHOULD UPDATE ITS LIST OF EMPLOYEES AUTHORIZED TO PICK UP PAYROLL CHECKS.

Unauthorized employees including Council Services timekeeper picked up the Council Services' paychecks. City departments complete forms which are on file at Treasury that give authorization to individuals to pick up payroll checks for their departments.

RECOMMENDATION

Council Services should update its list of employees authorized to pick up payroll checks.

Council Services should perform a periodic review of authorizations on file to ensure that information is current and that outdated authorizations are rescinded.

Council Services should ensure the timekeeper does not have access to payroll checks.

DFAS should ensure that only authorized employees pick up payroll checks from Treasury.

RESPONSE FROM CITY COUNCIL

“The audit recommendation has been implemented. The list of employees authorized to pick up payroll checks was updated in April, 2005 and September, 2005, and the Council timekeeper is not an employee authorized to pick up payroll checks. The director has calendared a review of the authorizations on file in June and December of each year.”

RESPONSE FROM DFAS

“DFAS concurs that only authorized employees should pick up payroll checks from Treasury. Departments have been instructed in writing that when they are unable to have a designated financial ID card holder pick up payroll, the Department may assign a courier to pick up payroll by providing a memo signed by the Department director, identifying both the authorized courier and the date of the pick-up. All authorized couriers must present the memo together with an official photo ID to Treasury Division.”

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

Quarterly 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 Council Services 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. Employees on leave without pay status are required to have sick and vacation accruals adjusted.

We appreciate the assistance and cooperation of the personnel of Council Services during this audit.

REVIEWED:

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APPROVED FOR PUBLICATION:

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