

FINAL

PAYROLL AUDIT REPORT

OF

HUMAN RESOURCES DEPARTMENT

REPORT NO. 02-117



**CITY OF ALBUQUERQUE
OFFICE OF INTERNAL AUDIT**



City of Albuquerque

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Internal Audit Committee
City of Albuquerque
Albuquerque, New Mexico

Audit: Payroll Audit
Human Resources Department
Report No. 02-117

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INTRODUCTION

The Office of Internal Audit performed a payroll audit of the Human Resources Department (HRD) for the pay period ended March 22, 2002. A review of internal controls was made to determine if they were adequate. Good controls are necessary to assure management that payroll regulations and procedures are being properly administered.

HRD's approved budget for fiscal year 2002 (FY02) was \$29,547,000. Seven percent of this amount, \$2,205,568 was for salary and benefit costs. Human Resources had 37 approved positions for FY02.

SCOPE

Our audit did not include an examination of all the functions, activities, and transactions related to HRD payroll. Our audit testwork was limited to the following areas:

- Review timecards, timesheets, P-30s and approvals.
- Review leave taken to determine if documentation is in order.

- Test approvals for salary changes and other compensation.
- Check compliance with applicable laws, policies and regulations.

The audit was conducted in accordance with Government Auditing Standards, except Standard 3.33, requiring an external quality control review.

FINDINGS

The purpose of an internal audit is to identify changes in the auditee's activities which would improve its effectiveness, efficiency, and compliance with administrative policies and applicable rules and regulations. Therefore, the auditee's activities which appear to be functioning well are not usually commented on in audit reports. The following findings concern areas that we believe would be improved by the implementation of the related recommendations.

1. HRD SHOULD INCREASE THE SUPERVISORY REVIEW OF THE PAYROLL FUNCTION.

HRD does not have adequate supervisory review of its payroll function. Several inaccuracies with HRD payroll procedures for timekeeping and record keeping came to our attention during this audit, including noncompliance with Federal reporting requirements.

A. *City of Albuquerque Request For Leave Of Absence Form (P-30) should agree with time recorded on employee timesheet.*

Pay histories for a sample of five employees were reviewed for calendar year 2001. Two P-30s in the sample did not agree with the hours recorded on the payroll history reports. The number of leave hours requested on the P-30 did not agree with the total number of hours on the automated payroll history system, i.e. the payroll history report showed 4 hours of vacation recorded and the employee's approved P-30 for that pay period showed 8 hours of leave requested. In the other instance, the payroll history report showed 14.5 hours of vacation for the pay period ended September 21, 2001, but the employee payroll file had P-30s for only 11.5 hours of leave.

Since the P-30s and the payroll history reports do not reflect the same number of hours taken, it is difficult to determine which of the two documents is accurate. The employee signs both the P-30 and the timesheet, as does the supervisor. The supervisor's signature on these documents should indicate that he or she has reviewed and approved them and is attesting to the hours worked. The hours from the timesheets are entered into the automated payroll system and the result is

reflected in the employee payroll history reports.

In the instances identified above, the P-30s and payroll history reports were not in agreement. It is apparent that the supervisors did not compare the P-30s to the timesheets. Therefore, the employees' leave balances may be incorrect which could result in incorrect payment to the employees.

B. *Non-exempt employees' timesheets do not agree with hours recorded on the payroll register.*

The Fair Labor Standards Act (FLSA) is the federal law governing how certain types of employees must be paid. The City assigns all employees into two basic categories, FLSA non-exempt and exempt. Non-exempt employees must be compensated in accordance with FLSA. Non-exempt employees are hourly employees who must complete a timesheet or timecard and are eligible for overtime compensation. Exempt employees are management level employees who are paid an annual salary regardless of actual hours worked. Exempt employees report the hours that they are **not** at work on an exception report. Exempt employees are not paid hourly and, therefore, are not eligible to receive overtime compensation.

Some HRD employees who are not exempt from FLSA are completing timesheets that show exceptions to the regular workweek (exception reports). For the pay period ended March 22, 2002, a grade M-12 FLSA non-exempt employee's exception report did not show the same hours as the payroll register. The register showed 9.5 hours of leave and the timesheet showed 8.0 hours of leave. According to HRD, the difference of 1.5 hours was a prior period adjustment. The HRD supervisor who supervises the payroll function did not review the payroll as it was being processed. There was no documentation of this adjustment other than the timesheet. This prior period adjustment should have been documented by an Hours Adjustment Form and approved by the appropriate supervisor and the employee. Additionally, the employee should have completed an FLSA timesheet rather than an exception report.

Another employee's timesheet showed only an "X" for sick leave taken and did not list the actual hours taken as sick leave. There were four instances where an "X" was used to indicate that leave was taken without identifying the number of hours of leave. The Code of Federal Regulations (CFR) at 29 CFR 516.2 requires the following records for employees subject to and not exempt from the FLSA's minimum wage and overtime pay provisions hours worked each day and total number of

hours worked each work week. An "X" to indicate the hours of leave taken does not comply with this requirement.

C. Numerous P-30s had cross-outs and alterations or were not completed correctly.

Nine P-30s had alterations and cross-outs. The employee or supervisor did not initial many of these changes; therefore, it is not apparent who made the changes or if both the employee and supervisor approved the change. There is no Department policy or procedure addressing this issue. In a discussion with the supervisor over the payroll function, he stated there is little supervisory review of the payroll process as it occurs.

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."

A June 16, 1998, letter from the Chief Administrative Officer to all department directors stated: "'time sheets' will no longer be required of management employees at the grade of MP-5 and higher. Instead, timekeepers will use P-30's as the basis for calculating and reporting hours into the payroll system . . ."

A sample of sixteen P-30s was reviewed for completeness. The following discrepancies were identified:

- Eleven P-30s did not have the pay unit of the employee.
- Four P-30s did not have either the employee's department or division on it.

D. Several issues with the leave of absence form (P-30) should be corrected.

During our review of payroll histories we noted several types of errors as follows:

- Form P-30 for leave taken was not available. An employee took 2.75 hours of other paid leave. However, the P-30 form documenting this leave was not available in the timekeeper's office.
- Form P-30 on file in timekeeper's office not charged against the employee's leave balance. A signed P-30 for 4 hours of vacation in the timekeeper's files

was not charged against the employee's leave balance.

- Some P-30s are being submitted for processing after the pay period has passed. Leave forms for two pay periods were submitted which did not match the payroll histories. The first pay period payroll records showed 32 hours of vacation but the P-30 for that period showed 44 hours of vacation. The following pay period payroll records showed 32 hours of vacation but the P-30 showed 20 hours of vacation. According to the timekeeper the employee submitted the P-30 forms late. This caused the first pay period and the following pay period to be incorrectly stated. The proper way to correct this deficiency is by the use of an Hours Adjustment Form.

Each of the above listed exceptions shows systematic control weaknesses that indicate a lack of HRD supervisory review and involvement in the payroll function.

The HRD payroll supervisor has the ultimate responsibility for ensuring that the payroll function is operating in accordance with City rules and regulations. Based on discussions with the supervisor and the result of our review of the payroll function, it appears that supervision should be increased. Good managerial control is needed, particularly when dealing with an automated payroll system. Reports generated by the system are in different formats than managers and supervisors were used to in the past. Additionally, the timekeepers now have the ability to make adjustments that had previously been performed by the Department of Finance and Administrative Services (DFAS) Payroll Section. Therefore, supervisory review should be strengthened in order to detect errors, omissions, and irregularities.

The supervisor responsible for the payroll function has done little review in the payroll process. 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. Employees could be receiving incorrect pay and leave allocations. In addition, if the supervisor is not knowledgeable of timekeeper entries to the payroll system, the timekeeper could make unauthorized changes to the automated payroll system that may not be detected.

RECOMMENDATION

HRD management should take steps to ensure that the supervisor of the payroll function more thoroughly reviews the payroll processing.

HRD should ensure that all leave taken by employees is properly recorded on the P-30s and agrees to the timesheets. Supervisory staff should ensure that

the forms are completed correctly and ensure that they agree with each other prior to being turned in to the timekeeper.

HRD should take steps to ensure that all payroll adjustments for prior periods are documented in accordance with payroll policies and procedures.

HRD management should direct the timekeeper not to accept any payroll forms that have been altered, unless the changes have been initialed by both the employee and the supervisor. HRD should ensure that P-30s are properly completed. Supervisors should ensure that all P-30s contain the pay unit of the employee and the employee's department and division.

HRD should improve its payroll processing procedures and its supervisory review procedures. It should instruct employees to promptly turn in their P-30 forms. The data input into the payroll system should be reviewed to ensure the accuracy of the data. Any corrections necessitated by the late submission of P-30 forms should be corrected by the use of the Hours Adjustment Form.

The payroll supervisor should more thoroughly review the processing of payroll and should attend payroll training to strengthen control over the payroll function.

EXECUTIVE RESPONSE FROM HRD

“The Human Resources Department is in agreement with IA recommendations that supervisory review of the payroll function should be increased. HRD has reassigned management staff to provide proper supervision of the payroll function. Payroll procedures have been revised and will be finalized upon approval of the department managerial leave policy. Upon finalization, all HRD staff will be provided training and a copy of the payroll procedures for their reference. HR Division Managers and HR staff have been advised of these audit findings and have been given directions that will address the areas of concern in this audit. These directions are as follows:

- ***All employees will be required to turn in the appropriate time sheet or exception report and P30's by Thursday of non-pay week (hourly time sheets for non-exempt/hourly***

employees and exception/leave reports for exempt/salaried employees).

- *Supervisors will ensure that the time sheets being utilized are appropriate for each employee's FLSA status and that they are being completed correctly by the employees. The timekeeper will not accept incomplete time sheets, exception reports or P30's, or those with errors. Any payroll form containing an error or omission will be sent back to supervisors and employees for correction. Both the employee and their supervisor must initial all corrections. The timekeeper will not accept any payroll form that has been altered unless the changes have been initialed by both the employee and the supervisor.*
- *All P30's must be submitted by an employee and approved by a supervisor in accordance with Personnel Rules & Regulations Section 400 and/or the appropriate union contract. The supervisor will remove the employee copy and give it to the employee upon approval and send the original to Payroll. The supervisor will keep one copy for the purpose of verifying the employee's time sheet/exception report prior to signing it and submitting it to Payroll.*
- *Any leave taken after payroll has been submitted will require that the payroll supervisor contact Payroll and arrange to correct the employee's time sheet and P30's. All corrections made after payroll has been downloaded will require an Hours Correction Form be completed and signed by both the employee and the supervisor.*
- *To ensure that payroll is being entered correctly by the timekeeper, all time sheets, exception reports and associated P30's will be compared to the payroll proof report by the timekeeper's supervisor. Errors will be corrected and rechecked on the final payroll proof/TCD to ensure accuracy.*