

September 24, 2009

Internal Audit Report 2009-12
Municipal Payroll
Finance Department

Introduction. The Municipality of Anchorage has a complex payroll system with over 300 different earnings codes and a variety of work schedules. Employees complete and sign time sheets or other approved time documents, noting the hours worked during a pay period, which a supervisor then approves and signs. Approved back-up documentation must be maintained to support leave, overtime pay, acting pay, and other exceptions to the standard hours and the base rate of pay. The Municipality uses the PeopleSoft Human Resources Time and Labor module (PeopleSoft) as the payroll system. Policy and Procedure (P&P) 24-10, *Approval and Retention of Employee Time and Attendance Records*, establishes the policy and procedures for approval and retention of time sheets and other payroll documents used to pay employees.

Objective and Scope. The objective of this audit was to determine whether payroll transactions were valid and supported by properly authorized documentation. Our audit included a review of judgmentally selected payroll transactions selected from six Municipal departments (Library, Parks and Recreation Department, Information Technology Department, Department of Law, Department of Health and Human Services, and the Property Appraisal Division of the Finance Department) for the time period of January through December 2008 to determine if payroll transactions were supported by an approved time sheet and the required supporting documentation. We also reviewed and verified all acting pay transactions for 2008.

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 December 2008 through February 2009. The audit was requested by the Administration.

Overall Evaluation. Our testing of various payroll transactions identified several weaknesses. Specifically, we found that time sheets, leave slips, and overtime request forms were not always signed by the employee and/or approved by the supervisor. Some leave taken by employees was not entered into the payroll system. In addition, we found 14 Municipal employees who accrued leave in excess of the limits specified in AMC 3.30.152, *Annual leave accrual*, and union contracts. We also found that acting pay was incorrectly applied, processed, and approved. Furthermore, the Information Technology Department was using a time sheet that was not approved by the Chief Fiscal Officer. Finally, payroll specialists need to be better instructed on how work hours are recorded on time sheets.

FINDINGS AND RECOMMENDATIONS

1. Employee Time Records Not Always Signed and Approved.

- a. **Finding.** Time sheets, leave slips, and overtime request forms were not always signed by the employee and/or approved by the supervisor. Specifically, in the Parks and Recreation Department, 56 of 84 time sheets reviewed had not been signed by the employee and one time sheet had not been approved by a supervisor. Also, 16 leave slips had not been signed by the employees. According to P&P 24-10, if the employee is absent on the day the time sheet or time documents are due, the immediate supervisor is to note “Employee Unavailable” and state the reason on the employee signature line, in ink. In the Information Technology Department, we found two out of 110 time sheets that had not been approved by the employee’s supervisor. P&P 24-10 requires supervisors to review and sign all time sheets and supporting documents prior to submission. Without adequate supporting documentation, employees’ time may not be properly recorded and management may not be appropriately controlling employees’ work schedules.
- b. **Recommendation.** The Municipal Payroll Supervisor should remind all Municipal departments of the requirement for signing and approving payroll documents.

- c. **Management Comments.** Management stated, “Management concurs with the audit finding and recommendation. This issue will be addressed with department payroll specialists at the quarterly payroll specialists meeting.”
- d. **Evaluation of Management Comments.** Management comments were responsive to the audit finding and recommendation.

2. **Leave Not Always Entered in Payroll System.**

- a. **Finding.** Leave taken by employees was not always entered into the payroll system. Even though our review of selected payroll documents disclosed signed and approved leave documents, payroll specialists did not always enter the leave into PeopleSoft, resulting in the employee’s leave balance not being charged for the leave taken. Our sample of leave documents revealed five instances where a leave slip was prepared, approved, and the leave entered on the employee’s time sheet, yet the leave was not entered into PeopleSoft. The hours of leave not entered ranged from 4.5 to 8 hours. We were not able to determine the reasons for the omissions.
- b. **Recommendation.** The Municipal Payroll Supervisor should review with all payroll specialists the proper method for entering annual leave into PeopleSoft.
- c. **Management Comments.** Management stated, “Management concurs with the audit finding and recommendation. This issue will be addressed with department payroll specialists at the quarterly payroll specialists meeting. In addition, supervisors will be reminded of the importance of accurately recording and reviewing time sheet data and ensuring that correct codes are entered.”
- d. **Evaluation of Management Comments.** Management comments were responsive to the audit finding and recommendation.

3. Inaccurate Leave Accrual Rates.

- a. **Finding.** The leave accrual rate for fourteen Municipal employees was in excess of the limits specified in AMC 3.30.152, *Annual leave accrual*, and union contracts. Ten of these employees were executive employees, two were non-represented employees, one was an Anchorage Municipal Employees Association (AMEA) employee, and one was an International Association of Firefighters' employee. The leave accrual rate is based on the years of service. A service date is entered into PeopleSoft to calculate the years of service. The service date is the same as the hire date. However, for these fourteen employees the service date was falsified so employees appeared to have worked for the Municipality years longer than they actually had. Since leave accrual rates increase based on the number of years actually worked, these employees received extra leave that they were not eligible to receive. Our analysis found that employees have received up to 10 days of leave a year in excess of the leave limits found in AMC and the union contracts.
- b. **Recommendation.** The Employee Relations Director should ensure employee leave accrual rates comply with AMC 3.30.152 and union contracts. In addition, all erroneous service dates should be corrected.
- c. **Management Comments.** Management stated, "We agree with the recommendation but take exception to the use of the term 'falsified'.

"Employee Relations has reviewed the list of fourteen (14) employees who you reported accrued leave in excess of the limits specified in AMC 3.30.152, *Annual leave accrual* and union contracts.

"First, I will address the AMEA employee. The employee was initially hired on December 7, 1998. Most recently, the employee was rehired on June 4, 2001. Section 9.3.2.C of the AMEA collective bargaining agreement (cba) allows employees rehired prior to December 31, 2001 to receive service credit for prior Municipal service. This section provides for bridging service for the purpose of leave accrual,

however it does not appear the bridging of service was calculated properly as the employee seems to be accruing more leave than provided for in the cba. The Employee Relations Director will further review and make prospective adjustments as necessary to ensure leave accrual rates are accrued in the manner prescribed in the AMEA cba.

“Second, I will address the two non-represented employees. Both of these employees were employees of the Anchorage Telephone Utility, while owned and operated by the Municipality. AMC 3.30.127(A) defines “length of service” as the number of days of all service rendered by an individual during employment with the municipality. However AMC 3.30.127(C)(1) states leave accrual rates are to be calculated from the employee’s most recent hire date. The previous Employee Relations Director allowed these two employees to bridge their service for the purpose of length of service, including leave accrual rates. The Employee Relations Director will ensure this practice is not repeated and that leave accrual rates are accrued prospectively in the manner prescribed in accordance with AMC 3.30.

“Third, I will address the IAFF employee. The employee was initially hired as an auxiliary firefighter on March 30, 1998 as reflected in the service date. The employee terminated on September 30, 1998 and was subsequently rehired as a firefighter on March 5, 2001. The IAFF cba does not provide for bridging of service other than for those employees who are laid off. As such, the Employee Relations Director will further review and make adjustments prospectively as necessary to ensure leave accrual rates are accrued in the manner prescribed in the IAFF cba.

“Lastly, I will address the comment pertaining to falsifying service dates. In PeopleSoft, leave accrual is calculated based on the date reported as ‘service date’. In

order to implement the special compensation of additional leave accrual or to bridge municipal service for the purpose of seniority, it was necessary to adjust the service date. In most cases, the comments panel in PeopleSoft reflects the rational and basis for adjusting the service date. This practice has been discontinued under the administration.”

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

4. Acting Pay Incorrectly Applied and Processed.

- a. **Finding.** Our review of all acting pay transactions during 2008 revealed a variety of problems. Specifically, we found the following:
- Acting pay was paid to some employees when they did not meet the requirements for acting pay. For example, we found 2 of 15 employees that received acting pay in 2008 totaling \$8,435.87 that did not meet the criteria for acting pay.
 - Two of 15 employees were paid an incorrect pay rate for acting pay.
 - Twenty hours of holiday pay were paid to an employee at the acting pay rate instead of the regular rate of pay.

- b. **Recommendation.** The Municipal Payroll Supervisor should instruct all payroll specialists on the proper procedures for acting pay. In addition, all overpayments resulting from improper acting pay transactions should be recovered in accordance with P&P 40-15, *Recovery of Overpayments*.

- c. **Management Comments.** Management stated, “Management concurs with the audit finding and recommendation. This issue will be addressed with department payroll specialists at the quarterly payroll specialists meeting. In addition, supervisors will be reminded of the proper procedures for receiving acting pay.

“At least temporarily, all acting pay requests will be routed to Employee Relations for approval, until better clarification can be given to employees. Legal will revise the Personnel Rules where it is deemed appropriate in order to clarify the guidelines.”

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

5. **Acting Appointments Not Properly Approved.**

- a. **Finding.** Eight employees did not have their acting appointments properly approved. Specifically, three non-represented employees did not have their acting appointments approved by the Employee Relations Director. Anchorage Municipal Code 3.30.066.H, *Types of appointments*, requires that “An acting appointment requires the prior written approval of the director.” In addition, four employees belonging to AMEA did not have their acting appointments/assignments approved by the Employee Relations Directors as required by AMEA contract 6.10.4. Finally, an acting pay authorization request for one International Brotherhood of Electrical Workers’ employee was missing.
- b. **Recommendation.** The Controller should remind Directors to properly complete approvals for acting appointments/assignments.
- c. **Management Comments.** Management stated, “Management concurs with the audit finding and recommendation. Directors will be reminded of the importance of having acting appointments properly approved by the Employee Relations Director according to AMC 3.30.066.H.

“At least temporarily, all acting pay requests will be routed to Employee Relations for approval, until better clarification can be given to employees. Legal will revise the Personnel Rules where it is deemed appropriate in order to clarify the guidelines.”

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

6. Substitute Time Sheet not Approved by Chief Fiscal Officer.

- a. **Finding.** The Information Technology Department was using a substitute time sheet (Excel spreadsheet) instead of the standard Municipal time sheet as specified by P&P 24-10. The substitute time sheet had not been approved by the Chief Fiscal Officer and did not contain some of the information that the standard time sheet contains. The standard time sheet is downloaded from PeopleSoft each pay period for each employee and contains the employee’s current leave balance and pay rate.
- b. **Recommendation.** The Information Technology Department should obtain written approval from the Chief Fiscal Officer for their substitute time sheet.
- c. **Management Comments.** Management stated, “Management concurs with the audit finding and recommendation. The Chief Fiscal Officer will have the Central Payroll Office send out reminders to Directors, Supervisors and Payroll Specialists of the requirements of P&P 24-10.”
- d. **Evaluation of Management Comments.** Management comments were responsive to the audit finding and recommendation.

7. Better Training Needed for Time Sheet Coding.

- a. **Finding.** Our review and testing of payroll records revealed that payroll specialists need to be better instructed on how work hours are recorded on time sheets. Municipal employees can use both alternate work schedules and flexible work

schedules. These various schedules sometimes make it difficult for payroll specialists to accurately record time and to know when overtime is paid. For example, one employee worked 12 hours of overtime during a pay period, but received overtime pay for 22.5 hours because the payroll specialist did not correctly compute the overtime hours related to the alternate work schedule.

- b. **Recommendation.** The Municipal Payroll Supervisor should remind and review with all payroll specialists the proper method for completing time sheets.
- c. **Management Comments.** Management stated, “Management concurs with the audit finding and recommendation. The proper recording of work hours on time sheets continues to be a challenge due to the complexity of the Municipality’s payroll system. This issue will be addressed with department payroll specialists at the quarterly payroll specialists meeting.”
- d. **Evaluation of Management Comments.** Management comments were responsive to the audit finding and recommendation.

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

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