

March 22, 2005

**Internal Audit Report 2005-3
2004 Municipal Payroll Review
Finance Department**

Introduction. The Municipality of Anchorage has a complex payroll system that includes nine unions, a wide variety of work schedules and leave plans, and serves about 2,900 Municipal employees. Data provided by staff in the Payroll Section shows that in 2004 they processed \$193,809,610 in gross pay and 3,904 (which includes election workers and terminated employees) wage and tax statements, Form W-2. According to Municipal Policy and Procedure (P&P) 24-10, Approval and Retention of Employee Time and Attendance Records, employees must complete and sign time cards or other approved time documents, noting the hours worked during a pay period, which a supervisor approves and signs. The department or division payroll clerk then enters all employee time, labor, and leave information into the PeopleSoft Human Resources Time and Labor module (PeopleSoft). Each pay period, when the payroll is processed, the time codes are matched to earnings codes in PeopleSoft. These earnings codes determine the employee's pay rate for the daily hours entered. Some departments have exemptions from the standard time sheet requirements and their employees may not be required to complete their own time sheets; rather, the time sheets may be completed by supervisors or the department payroll clerk.

In some cases, employees are paid at rates different from their regular pay rate. Unless there are department exemptions, approved backup documentation must be maintained to support overtime pay and any pay rates other than an employee's regular pay rate. Additionally, approved leave slips are required to support leave time used by employees. Any other payroll transactions affecting employee pay or leave, such as court and military training leave adjustments or retroactive pay from transactions occurring in a prior pay period, also require approved supporting documentation.

Objective and Scope. The objective of this audit was to determine whether payroll transactions were valid and were supported by properly authorized documentation. This audit included a review of payroll transactions for the time period of January through June 2004. Specifically, we judgementally selected more than 580 time sheets and appropriate backup documentation, such as leave slips, overtime requests and prior period adjustments, from various departments and verified their accuracy. We also verified dependent care contributions and reimbursements. In addition, we tested payroll clerk access to the PeopleSoft Human Resources system to determine if access was properly authorized and appropriate. Moreover, we reviewed court leave and military training leave for 2003 and 2004 to determine if court pay and military pay were properly recovered. Finally, we followed-up on previous audit findings to determine if audit recommendations had been implemented.

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 September 2004 through January 2005. The audit was requested by the Administration.

Overall Evaluation. Overall, selected payroll transactions were valid and biweekly payrolls were processed on time providing pay to the Municipal workforce. However, we found that deductions for military and court pay were not always made and that meal periods and meal allowances were incorrectly applied. In addition, we identified several dependent care deductions that were not supported by appropriate backup documentation. Moreover, we found that payroll records were not always properly completed, approved, or maintained. Finally, our audit revealed that the Payroll Clerk's Manual is outdated and payroll training is inadequate.

FINDINGS AND RECOMMENDATIONS

1. Deductions for Military and Court Pay Not Made.

- a. **Finding.** Deductions for military pay and court pay were not always made. P&P 40-17, Wage Recovery for Injury, Court and/or Military Training Leave, states, “It is the policy of the Municipality to recover duplicate earnings received by employees during paid leave for injury, court or military training.” In addition, P&P 40-15, Recovery of Overpayments, requires, “Any payment made in excess of that authorized, for any reason, shall be recovered from the employee.” During the course of our audit work, Payroll Section staff suggested that we review deductions for military and court pay. Our review of all military training leave and court leave for 2003 and 2004 revealed the following:

- **Military Pay** - We found 14 employees who were on military training leave in 2003 and 2004 who did not have their military pay deducted from their earnings as required by P&P 40-17. We could not calculate how much 13 of these 14 employees owed because their military pay was not documented. However, one of these employees recently submitted his military pay documentation after the problem was brought to his attention. This employee did not claim any deductions for 2001, 2002, 2003, and 2004, even though the employee used military training leave each year. His military pay for the four years amounted to \$3,312.19.
- **Court Pay** - For 2003 and 2004, our review revealed no court pay deductions were made for 123 of those employees who took court leave.

We also found that employees did not always comply with the time limit set by P&P 40-17 regarding injury, court and military training (ICMT) leave. P&P 40-17 states that, “Within one pay period of completion of the authorized leave (or periodically

as needed), the employee will provide attendance reports from the court system, copies of checks, or income statements to attest that the leave taken was ICMT and that income was earned.” For example, we found one employee, who was on jury duty on July 16 and 17, 2003, but did not submit his court pay until March 2004. The court pay was finally deducted in the pay period ending April 4, 2004, nearly nine months later. Moreover, we found one department with an unwritten internal policy to give employees through the end of the year to submit military pay statements. Many of these problems could have been avoided if court and military training leave had been adequately tracked and submission of pay documents had been enforced.

b. Recommendation. The Payroll Supervisor should recover all overpayments that resulted from court and military training leave, as required by P&P 40-15. In addition, all payroll clerks should be instructed in the proper procedures for processing court and military training leave as required by P&P 40-17.

c. Management Comments. Management stated, “We concur with the finding and will be reviewing all employees who have taken court and/or military training leave since 2001 and any earlier years, as warranted. During 2005 we will calculate any overpayments and seek reimbursement from those employees.

“In addition, we will provide instruction and procedures to payroll personnel and departmental payroll clerks for proper implementation of P&P 40-17. During our February 1, 2005 Payroll Clerk meeting, we distributed Policy & Procedure (P&P) 40-17 Wage Recovery for Injury, Court and/or Military Training Leave as a reminder of the MOA policy.”

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

2. Meal Periods and Meal Allowances Incorrectly Applied.

- a. Finding.** Meal periods and meal allowances for members of the Anchorage Municipal Employees Association (AMEA) have not been consistently applied. At the suggestion of staff in the Payroll Section, we reviewed meal periods and meal allowances for AMEA members. Our review of about 100 employee time cards revealed nine instances where employees were incorrectly awarded meal periods and meal allowances outside of their regularly scheduled shift. In addition, we found five instances where employees were entitled to only one meal period and meal allowance, but were awarded two for that day. As a result, some employees were erroneously awarded meal periods and meal allowances. The AMEA handbook addresses meal periods and meal allowances stating that, "All employees scheduled to work a shift of eight (8) hours or more, and required to report to work a minimum of two (2) hours continuous with and before or after the regularly scheduled shift, shall be paid nine dollars (\$9.00) as meal allowance, and shall be given and must take a paid meal period of one (1) hour at the regular straight time hourly rate. An additional meal allowance and meal period as defined shall be paid for each additional four (4) hours worked thereafter." In addition, P&P 40-15 requires, "Any payment made in excess of that authorized, for any reason, shall be recovered from the employee."
- b. Recommendation.** The Payroll Supervisor should provide guidance to payroll clerks on the proper method to compute meal periods and meal allowances. Also, the Payroll Supervisor should recover all meal allowance overpayments as required by P&P 40-15.
- c. Management Comments.** Management stated, "We concur with the finding and will be reviewing all employees paid meal allowances and/or meal periods in 2004 and any earlier years, as warranted. During 2005 we will calculate any overpayments and seek reimbursement from those employees."

“In addition, we will provide instruction and procedures to payroll personnel and departmental payroll clerks for proper payment of meal periods and meal allowances per P&P 40-15.”

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

3. **Dependent Care Deductions Not Supported.**

- a. **Finding.** Dependent care deductions did not always match amounts specified on enrollment forms. Our review revealed that deductions were not supported by the appropriate backup documentation for 3 of the 41 participants in the Dependent Care Program. Similar errors were noted in Internal Audit Report 2004-05. For example, on the same day, one employee cancelled his participation in the program, but also sent an e-mail specifying an amount of \$96.15 to be deducted from his paycheck. However, the actual amount deducted per paycheck was \$192.30. As a result, \$96.15 more was deducted from each of his pay checks than was specified. In addition, no documentation existed to support biweekly deductions of \$192.30 for this employee. Reimbursement of dependent care deductions can only be made if the program participant can submit proof of dependent care expenses.

In another case, no documentation existed to support the termination of deductions for an employee. The file only contained the Dependent Care Enrollment Form which specifies the amount to be deducted from each paycheck. In the third instance, an employee specified a biweekly deduction of \$173.08 on the enrollment form. However, the actual deduction made was \$162.50.

During our audit, Employee Relations Department personnel had difficulty providing supporting documentation for our review. In some cases, documents were never provided. In other cases, Employee Relations personnel were unable to readily

provide the documents when requested. Although some of these documents were eventually placed in the employees' files and supported the dependent care deductions, some of these documents were nearly a year old and should have been placed in the employee's file upon receipt. While it is important that documents be available for audit purposes, proper record management is also necessary in the department's day-to-day operations.

- b. **Recommendation.** The Employee Relations Director should establish appropriate controls over the dependent care program to ensure reliability and accuracy of dependent care deductions and supporting documentation.

- c. **Management Comments.** Management stated, "Employee Relations now has a dedicated accounting staff person. For 2005, this is a full-time position. In addition to providing Employee Relations with a dedicated Budget Coordinator, this position is responsible for accounts payable, accounts receivable, FSA Dependent Care Reimbursement and FSA Health Care Reimbursement oversight. Individual files are now maintained by the Benefits Accountant on FSA accounts.

"In prior years, elections were not stopped at year-end in the Dependent Care FSA's. Beginning at year-end 2004, all Dependent Care deductions are now terminated, and new elections are required from year to year. For 2005, Health Care Reimbursement has been added to the MOA's FSA program. Data entry for deductions is done by benefits staff, and verified by a separate benefit staff person. Dedicated files are kept by the Benefits Accountant, who does not have data entry access to PeopleSoft HR. In addition, claims are now verified by the Senior Insurance Analyst, and processed by the Benefits Accountant - therefore duties are now separated and appropriate controls are in place."

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

4. Payroll Records Not Properly Completed, Approved or Maintained.

- a. Finding.** Our review of time cards and appropriate backup documentation, such as leave slips and overtime request forms, revealed that payroll records were not always properly completed, approved or maintained. For example, at one department we found that over a hundred daily time documents were not signed by the supervisor. At other departments, our review revealed missing and unsigned leave slips and leave slips and overtime requests not matching time cards. P&P 24-10 states, “It is the policy of the Municipality that all time cards or time documents be approved by the responsible employees prior to submission for compensation.” Without adequate supporting documentation, employees’ time may not be properly recorded and management may not be appropriately controlling employees’ work schedules. Similar errors were found in Internal Audit Reports 2003-05 and 2004-05.
- b. Recommendation.** The Payroll Supervisor should remind payroll clerks that payroll records must be properly completed, approved and maintained.
- c. Management Comments.** Management stated, “We concur with the recommendation and will address with departmental payroll clerks during our quarterly payroll clerk meetings.”
- d. Evaluation of Management Comments.** Management comments were responsive to the audit finding and recommendation.

5. Payroll Clerk’s Manual Outdated and Payroll Training Insufficient.

- a. Finding.** A current Payroll Clerk’s Manual still has not been completed and distributed to payroll clerks. Many of the problems identified in our audit may have been avoided if the Payroll Clerk’s Manual had been up to date and adequate training had been provided. The Payroll Clerk’s Manual has been in draft form since April

2000 and needs to be revised and finalized to reflect current payroll procedures. A similar condition was reported in our previous audits, Internal Audit Report 2003-5 and 2004-5.

- b. **Recommendation.** The Payroll Supervisor should finalize a standardized, current Payroll Clerk's Manual for Municipal payroll clerks. Also, ongoing training to payroll clerks should be provided to help ensure that proper payroll procedures are followed and payroll documents are adequately maintained.
- c. **Management Comments.** Management stated, "We concur with the recommendation and are currently preparing a Payroll Clerk Manual which is to be issued during 2005."
- 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 on February 2, 4, 2005.

Audit Staff:
Birgit Arroyo