

January 4, 2007

**Internal Audit Report 2007-1**  
**2006 Payroll**  
**Finance Department**

**Introduction.** The Municipality of Anchorage has a complex payroll system that contains a wide variety of work schedules and leave plans and serves about 3,000 Municipal employees including nine unions. The following events take place as part of the payroll process. Employees complete and sign time cards or other approved time documents, noting the hours worked during a pay period, which a supervisor then approves and signs. Some departments have exemptions from the standard time card requirements and their employees may not be required to complete their own time cards; rather, the time cards may be completed by supervisors or the payroll specialists. Then, the department or division payroll specialist 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.

In some cases, employees are paid at rates different from their base pay rates. Unless there are department exemptions, approved back-up documentation must be maintained to support leave, overtime pay and any pay rates other than an employee's base pay rate.

**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 payroll transactions for all general government primary payroll specialists, including employees of the Payroll Department, for the time period of January through October 2006. Specifically, we selected all pay overrides, overtime, and leave for payroll specialists to determine if they were properly supported and documented. In addition, we selected one payroll cycle for the Parks and Recreation Department and two payroll cycles for selected employees of the Maintenance and

Operations Department to determine if payroll transactions were accurate, were based on appropriate supporting documentation, and complied with applicable policies and procedures. Finally, we reviewed deductions for all Municipal employees participating in the dependent care program and compared them to supporting documentation and enrollment forms.

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 through November 2006. The audit was requested by the Administration.

**Overall Evaluation.** Overall, payroll transactions tested were valid and adequately supported. In addition, the Payroll Clerk Manual has been finalized. However, the Public Transportation Department had not used Overtime Request forms to approve overtime. Also, employee time records were not always signed and approved by supervisors prior to submission for compensation at the Maintenance and Operations Department.

## **FINDINGS AND RECOMMENDATIONS**

### **1. Overtime Request Forms Not Used for Administrative Positions at Public Transportation Department.**

- a. Finding.** Administrative employees at the Public Transportation Department were not required to fill out Overtime Request forms. Instead, allegedly overtime was approved verbally and entered on the employees' time cards. According to Municipality of Anchorage Policy and Procedure (P&P) 40-9, *Documenting and Approving Overtime*, "The agency head or designee(s) shall approve/disapprove all overtime requests . . . ." and the payroll specialist " . . . shall ensure that the

documentation authorizing overtime supports all overtime recorded on employee time cards prior to submittal to payroll.”

- b. **Recommendation.** The Director of the Public Transportation Department should ensure that all overtime is approved/disapproved on an Overtime Request form.
- c. **Management Comments.** Management stated, “The Public Transportation Department fully concurs with the finding and recommendation. The Department’s Payroll Specialist has informed all administrative staff of the requirement to have an approved Overtime Request form prior to working overtime, and to have it included as support documentation with the affected employees time cards. This documentation requirement was instituted immediately once the auditor noted the deficiency in overtime approval documentation.”
- d. **Evaluation of Management Comments.** Management comments were responsive to the audit finding and recommendation.

2. **Employee Time Records at the Maintenance and Operations Department Not Always Signed Timely.**

- a. **Finding.** Employee time records were not always signed and approved by supervisors prior to submission for compensation. We found that 165 of 201 time records were signed about five weeks after the pay period ended. P&P 24-10, *Approval and Retention of Employee Time and Attendance Records*, 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.” By signing and approving time documents after employees have been compensated, management

may not be appropriately controlling employees' work schedules, and errors on time records could go undetected, resulting in an over or underpayment of employees.

- b. **Recommendation.** The Director of the Maintenance and Operations Department should ensure that all time cards are approved prior to submission for compensation.
- c. **Management Comments.** Management stated, "Maintenance and Operations Department Management concurs with the audit finding and recommendation for corrective action.

"Maintenance and Operations departmental Policy and Procedure number, M&O-04 (see attached) established in November-2004 explains proper procedures for processing of Facility and Fleet Maintenance Division payroll and daily timecards. This departmental policy is consistent with Municipal P&P 24-10 referenced in the audit finding. The section in question prepares daily timecards for craftsmen assigned various work orders on a daily basis throughout the pay period. Additional handling of the timecards to match up labor hours to the assigned work orders in the department's automated maintenance/management system should not constitute a delay in supervision reviewing and approving the timecards prior to submission for compensation.

"Adherence to existing departmental policy and procedure, M&O-04 will satisfy the Internal Audit recommendation for the audit finding. The referenced departmental policy and procedure requires approval of the timecards and leave slips prior to submission to the payroll clerk for processing. December 11, 2006, appropriate staff was apprised of and instructed to adhere to the proper sequence for processing of timecards consistent with the above referenced Municipal and Departmental Policy & Procedures. Departmental review of timecards for proper approval signatures will

be conducted prior to final submission for compensation each pay period beginning December 28, 2006 to ensure compliance as directed.”

- 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 November 29, 2006.

Audit Staff:  
Marina Mazour