

April 23, 2008

Internal Audit Report 2008-6
Municipal 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. 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 judgmentally selected payroll transactions for the time period of January through December 2007, selected from six Municipal departments: Employee Relations Department, the Port of Anchorage (Port), Street Maintenance Division, the Anchorage Police Department (APD), Solid Waste Services (SWS), and the Anchorage Fire Department (AFD). Specifically, we determined if payroll transactions were accurate, were based on appropriate supporting documentation, and complied with applicable policies and procedures for selected payroll cycles. Additionally, we reviewed 401(k) and 457 deductions for accuracy and reviewed standby pay, callback pay, and Municipal take-home

vehicle documentation. Finally, we reviewed if exemptions from the standard time card requirements were properly approved and current.

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 November 2007 through January 2008. The audit was requested by the Administration.

Overall Evaluation. Our testing of various payroll transactions identified several weaknesses. Specifically, AFD's payroll procedures did not comply with standard Municipal payroll procedures. As a result, some AFD employees have received significant overpayments. In addition, some Municipal employees who received standby pay totaling \$122,291 in 2007 were never called back to work. Moreover, we found that APD's payroll process lacked basic internal controls to prevent errors in their payroll system. We also found that APD, SWS, Street Maintenance, and the Port did not always maintain or complete appropriate documentation for payroll transactions, such as overtime approval and leave authorization. Furthermore, policies and procedures did not exist to ensure that 457 and 401(k) deduction amounts were accurate and approved payroll exception procedures were not current. Finally, the Office of Management and Budget (OMB) failed to maintain the master list of Municipal take-home vehicles and also failed to maintain the master list of vehicle authorization letters.

FINDINGS AND RECOMMENDATIONS

1. AFD's Payroll Procedures Did Not Conform with Municipal Procedures.

- a. Finding.** AFD's payroll procedures did not comply with standard Municipal payroll procedures. As a result, some AFD employees have received significant overpayments. The non-compliance encompassed the entire payroll process from

employees not being classified correctly, to being paid for hours that were not worked, to accruing leave at an incorrect rate. Specifically, we found the following discrepancies:

- *Incorrect Employee Classification* - One employee was classified as a union employee but was working in an unapproved non-represented position. The employee also received a “Service Out of Rank” pay adjustment each pay period and accrued vacation time at the union rate of 12 hours every two weeks, instead of the accrued rate for non-represented employees.
- *Payroll Specialists Entered False Pay Data* - Although time sheets for some non-represented employees showed they each worked 40 hours a week, AFD payroll specialists falsely entered 56 hours a week into PeopleSoft as time worked. As a result, five non-represented AFD employees were paid for work hours they did not work and received benefits they should not have received. After reviewing time records we found these employees worked 40 hours a week since about April 2007, but were paid for working 56 hours a week.

In addition, any hours these employees worked beyond the 40 hours per week were considered overtime hours and were paid at the overtime rate, even though they had already been paid for 56 hours of work. Moreover, these employees also received vacation time at the Kelly Shift non-represented rate even though they did not work 56 hours.

- *Some Employees Assigned to Non-Existing Positions* - Some employees were placed in management positions that were never approved. In mid-2007, AFD management reorganized the Department. However, the implementation plan was never approved by OMB. Consequently, Employee Relations has not reclassified these positions. As a result, some of these employees have been

receiving additional compensation for working outside of their current job classifications as well as receiving compensation for temporary duty. To receive this additional compensation, union earning codes have been used for these non-represented employees.

The following table shows the annual salaries that these employees are receiving compared to what they should have received, based on their hourly rate as recorded in PeopleSoft and a 40-hour work-week schedule.

	Hourly Rate	Annual Salary Based on Actual Hours Worked¹	Annual Salary Received²	Difference	Other Compensation Received³
Employee 1	\$37.36	\$77,709	\$108,792	\$31,083	\$1,121
Employee 2	\$37.01	\$76,981	\$107,773	\$30,792	\$3,049
Employee 3	\$36.19	\$75,275	\$105,385	\$30,110	\$543
Employee 4	\$36.19	\$75,275	\$105,385	\$30,110	\$3,299
Employee 5	\$34.91	\$72,613	\$101,658	\$29,045	\$2,390
1. Annual Salary = PeopleSoft Hourly Rate x 40 Hours Per Week x 52 Weeks 2. Annual Salary = PeopleSoft Hourly Rate x 56 Hours Per Week x 52 Weeks 3. Temporary Duty and Working Out of Class Payments					

- b. Recommendation.** The Fire Chief should ensure that the Anchorage Fire Department complies with standard Municipal payroll procedures. Employees should only be paid for hours worked and assigned to existing approved positions.
- c. Management Comments.** Management stated, “AFD reviewed the recent MOA Payroll Audit report. AFD accepts the recommendations of Internal Audit and has made the necessary adjustments to AFD payroll.”

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

2. **Necessity of Standby Pay Questionable.**

- a. **Finding.** Some Municipal employees who received standby pay in 2007 were never called back to work. Specifically, in 2007 thirteen employees whose standby pay ranged from \$2,171 to \$21,971, totaling \$122,291, were never called back to work. Moreover, eight of the thirteen employees who received the standby pay in 2007 also received standby pay in 2005 and 2006, but none were called back to work while on standby. In addition, there were numerous other employees who received standby pay in 2005, 2006, and 2007 who were only called back to work once during those years. One alternative to standby time could be to call the employee back to work, if needed, and pay the callback pay and overtime, since it appears that the employees are seldom called back.
- b. **Recommendation.** The Chief Fiscal Officer should direct department directors to review their use of standby pay.
- c. **Management Comments.** Management stated, “Management concurs with the finding and recommendation provided. The Chief Fiscal Officer will remind Directors and Supervisors that they need to routinely review their management practices regarding the payment of standby pay in relation to the number of times an employee is actually called back into work. Paying employees standby pay when they are rarely called into work is not the best use of municipal funding. Directors and Supervisors will be encouraged to discontinue the practice of paying standby pay in their department where an employee has not been called back for a predetermined period of time (6 months or more). If employees are called back into work, they will be paid via the callback provisions in their contracts.”

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

3. **Lack of Internal Controls Over Payroll Processing at APD.**

- a. **Finding.** The payroll process at APD lacked basic internal controls to prevent errors in payroll transactions. The payroll staff did not verify the payroll data that was entered into PeopleSoft each payroll cycle. The Payroll Clerk Manual, Section 11, requires payroll specialists to verify time and labor data entry prior to approving the time for the pay period by running either the APPROVEBYGROUP or APPROVEBYEMPLOYEE queries. However, the payroll staff did not use these queries to verify the payroll data nor was the data reviewed by a supervisor. As a result, input errors were not detected prior to approving time for the pay period.
- b. **Recommendation.** The Police Chief should require the Payroll Section to follow the procedures in the Payroll Clerk's Manual to improve the internal controls over payroll transactions.
- c. **Management Comments.** Management stated, "Although APD's payroll process lacks some of the basic internal controls prescribed by Municipal Policy to prevent errors in our payroll system, controls are used and checks are made to prevent the majority of errors and especially those which would result in gross over or under payments of salary to employees. The Payroll Clerks visually check their entry as they make them and do a visual check for unusual numbers prior to final approval. Notably, when the accuracy of their data entry has been audited, errors are very limited in number.

"The exception system currently utilized by the APD can generate upwards of 2000 exception documents in one pay period. Some of these documents are generated the

weekend prior to deadline and are not available for input until the last minute. APD payroll staff is often completing initial entry up to deadline leaving no time for the required verification by APPROVEBYGROUP or APPROVEBY EMPLOYEE queries, which have been tested and can take over an hour to complete.

“Although we understand the stated queries are required by policy, we are not currently in a position to comply with that policy. We are currently working on an update to the ‘Exception Letter’ which allows the APD to use an exception system of time accounting. This updated letter will provide procedures for the appropriate internal controls to prevent errors in our payroll system and provide exception language for those stated controls which are not manageable within our current system.

“The payroll process is scrutinized by command on a regular basis and employees are quick to bring errors to our attention, however, we agree that there is insufficient supervision and are seeking a new position which would serve the function, in part, of a payroll supervisor.”

- d. **Evaluation of Management Comments.** Management comments were not responsive to the audit finding and recommendation. Payroll errors entered into PeopleSoft affect employees’ pay and require considerable work to correct. The standard payroll procedures specified in the Payroll Clerk Manual are designed to provide internal control procedures over payroll for all Municipal Departments. APD currently has four full-time payroll specialists, the most of any Municipal agency. This should allow sufficient staffing to comply with the procedures and controls over payroll transactions contained in the Payroll Clerk Manual.

4. APD Supporting Documentation Not Always Properly Maintained or Completed.

a. Finding. Supporting documentation was not always properly maintained or completed for some of APD's payroll transactions that we tested. Specifically, we found that overtime was not properly approved and leave slips were missing.

- *Overtime Not Properly Approved* - Eleven of the twenty-five overtime requests we tested were missing information to show whether the overtime requests were approved or disapproved. In addition, twelve of the overtime requests were approved late and twenty-four of the overtime requests were approved by one employee who was not part of the employees' chain of command, contrary to APD's internal procedures. Municipal Policy and Procedure (P&P) 40-9, *Documenting and Approving Overtime*, requires that scheduled overtime be approved in advance and unscheduled overtime be approved no later than the second working day following the actual overtime occurrence by the responsible supervisor.
- *Missing Leave Slips* - For the payroll periods tested, leave slips were missing for two different employees on two different dates. In addition, APD maintained a "Problem Time Sheets Folder." The folder contained forty-seven different time sheets, dating back to February 2007, with missing payroll backup documents, in most cases, leave slips. 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."

b. Recommendation. The Police Chief should require supervisors to properly complete approvals for leave requests and overtime requests.

- c. **Management Comments.** Management stated, “The current Municipal payroll system and related policies are intended for a time card system where each employee answers to a single, responsible supervisor. Approval of time and leave for a single individual, in a single pay period, working at APD could require one (1) to several, conceivably five (5) or more, supervisors’ scrutiny and approval.

“Although employees seek to have pre-approval for their overtime, exigent circumstances, not always of an emergency level but required to get the job done, do occur, in which circumstances the overtime will not be pre-approved. Likewise, an employee may obtain verbal authorization and complete the overtime exception sheet at a time the supervisor is not available to sign it. We have improved our overtime tracking sheets in an attempt to reduce the time lag and difficulties with obtaining proper authorization.

“Missing Leave slips are tracked, which does provide an audit trail for the entry done by the payroll specialists. To pay an employee regular time when a time sheet indicates they were on leave introduces an element of error less likely to be noticed or corrected by an employee. We are seeking to tighten our effort to obtain delinquent leave slips as we agree that they should not be missing longer than a single pay period.”

- d. **Evaluation of Management Comments.** Management comments were somewhat responsive to the audit finding and recommendation. Standard payroll procedures and supporting documentation have been developed to provide adequate controls and accountability over payroll. These procedures apply to all Municipal employees, including APD employees. Management personnel should strive to comply with these procedures to ensure that all payroll transactions are accurate and properly approved by supervisors.

5. SWS Overtime Approval Not Timely.

- a. Finding.** Unscheduled overtime was not approved timely. SWS' overtime procedures resulted in as many as seven days between the date the overtime was worked and the approval date. Overtime, after being worked, was submitted to the Director for approval at the end of each week. P&P 40-9 requires that scheduled overtime be approved in advance and unscheduled overtime be approved no later than the second working day following the actual overtime occurrence.
- b. Recommendation.** Unscheduled overtime should be approved no later than the second working day following the actual overtime occurrence as required.
- c. Management Comments.** Management stated, "SWS has reviewed the findings of the Municipal Payroll audit with respect to our department. The audit found that the Solid Waste Services Department was not in compliance with P&P 40-9 in that overtime was not approved in a timely manner. SWS concurs that this finding is correct for some employee classes. The current practice followed by the Department is for the operational supervisors to prepare overtime reports at the end of each week which are submitted to the Director for approval. The P&P requires Director's approval no later than the second working day following the actual occurrence for unscheduled overtime. Consequently our current procedures are not in compliance for some employee groups.

"In general, overtime for the Department is unscheduled. The SWS workforce includes Teamsters, Operating Engineers, AMEA and non-represented employees. For AMEA and non-represented employees, overtime does not accrue in any week until after the employee has worked 40 hours. Consequently, overtime for these classes occurs on Thursdays or Fridays. The current review process is in compliance with the P&P for these employee classes. Teamsters and Operating Engineers accrue

overtime on any workday that extends beyond the scheduled shift. Shift duration is influenced by weather, traffic, waste volumes and other factors. For most weeks, overtime is a daily occurrence for these employee classes. To comply with the P&P, SWS supervisors will complete the overtime summary report on the day following any unscheduled overtime. The reports will be submitted to the Director for approval on a daily basis then forwarded to the Payroll clerk for compilation and verification with timecards at the end of the week.”

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

6. **Street Maintenance Division Overtime Approved Late.**

- a. **Finding.** Eight of the thirteen Street Maintenance overtime requests tested were approved late, three more than twenty-five days after the overtime occurred. P&P 40-9 requires that scheduled overtime be approved in advance and unscheduled overtime be approved no later than the second working day following the actual overtime occurrence.
- b. **Recommendation.** The Maintenance and Operations Department Director should require supervisors to properly complete approvals for overtime requests.
- c. **Management Comments.** Management stated, “Maintenance & Operations Department fully concurs with the finding and Internal Audit recommendation ensuring timely approval/disapproval of overtime requests. When practical, overtime will be pre-approved per policy & procedure. In many instances, pre-approval of overtime requests is not practical as much of Street Maintenance overtime is on a call-out basis responding to unscheduled events beyond our control (emergencies, weather events, equipment failures, etc.). In these instances, Management will ensure

Supervision approves the unscheduled overtime and submits documentation to Management for final signature approval no later than two working days from the date of overtime occurrence. This procedure is consistent with P&P 40-9 7.b.”

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

7. **Port Supporting Documentation Not Always Properly Maintained or Completed.**

- a. **Finding.** Supporting documentation was not always properly maintained or completed for some Port payroll transactions that we tested. Specifically, we found that overtime was not approved for five overtime requests we tested. Specifically, four employees’ overtime requests were not approved and the remaining employee did not have an overtime request. Moreover, one overtime request was submitted for approval 11 days after the overtime occurred and another was submitted nine days after the overtime occurred. P&P 40-9 requires that scheduled overtime be approved in advance and unscheduled overtime be approved no later than the second working day following the actual overtime occurrence.
- b. **Recommendation.** The Port Director should require supervisors to properly complete time sheets and approvals for overtime requests.
- c. **Management Comments.** Management stated, “Concur. The sample overtime requests reviewed were all dated 10/15/07. On that date, four of the port maintenance staff stayed overtime to attend a mandatory Ethics class. The overtime documents were given to the port payroll staff before the supervisor could sign them so that City Hall’s payroll submission deadline would not be missed. They should have gone back to the supervisor for signature before they were officially submitted

to City Hall, but that step was missed. There have been no documented payroll errors since then.

“Action taken: Port payroll personnel have been directed not to process any overtime requests without signatures from authorized supervisors.”

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

8. **No Policies and Procedures for 457 and 401(k) Adjustments.**

- a. **Finding.** No policies and procedures exist to ensure that adjustments made by Employee Relations staff to 457 and 401(k) deductions were accurate. As a result, employee contributions into their respective plans were not always correct. For example, one employee had a contribution amount of \$250 deducted from her paycheck, instead of \$25 as requested. In another case, an employee sent a request to participate in the 401(k) plan, but Employee Relations staff enrolled him in the 401(k) Roth plan. In both cases, the errors were not detected by Employee Relations staff, but were detected by the affected employees. When Employee Relations staff receive 457 and 401(k) contribution data, they manually enter it into PeopleSoft. The data is verified; however, it is sometimes verified by the same person who entered the data and the verification may occur after the changes become effective. For example, a contribution change entered into PeopleSoft on 10/24/2007 was not verified for accuracy until 12/18/2007, 55 days after the change became effective.
- b. **Recommendation.** The Employee Relations Director should implement policies and procedures to ensure that 457 and 401(k) deductions are accurate.

- c. **Management Comments.** Management stated, “We agree with the recommendation. Prior to 2007 year end, one person was responsible for calendaring, running the interface processes, and documenting data entry and getting the data verified. At that time, the Benefits Technician was also doing the work of a full-time Records Technician, and year-end for Benefits Open Enrollment was in full gear, with Benefits staff conducting more than 70 meetings throughout the Municipality, implementing additional health insurance options, and making more than 2,800 benefit election changes.

“During the 2007 calendar year, more than 1,500 changes to retirement deferrals (contributions) were received and processed. We concur that with Benefits staffing shortages, these errors did occur. These particular problems were employee errors and have been dealt with accordingly.

“Procedures are now in place for calendaring, retrieval, data entry and verification of data entry, to PeopleSoft for retirement account deferrals and loans.

- Two Benefits staff members currently calendar the interface files, with step-by-step documented procedures on running the interface and entering data to PeopleSoft.
- The Director of Records & Benefits has documented timelines for all processes and deadlines relating to payroll and benefits for Records & Benefits staff.
- Verification of the data entry, to accurately reflect participant changes in their retirement plan accounts will be conducted prior to Payroll Data Entry deadlines.
- Employee Relations has renewed a request to PeopleSoft HR Analysts to automate the remaining interface processes, specifically the 401k deferral, 457 deferral and 401k loan file interface. When complete, this will eliminate errors such as incorrect amounts and data entry to the wrong retirement plan

account. The request was put on hold during the time the errors occurred due to higher priorities with PeopleSoft HR and PeopleSoft Finance. Priority on this request has once again been elevated.

- Employee Relations continues to search for funding and resources to re-staff the Retirement/Pension position in Benefits.”

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

9. **Approved Payroll Exception Procedures Were Not Current.**

- a. **Finding.** Four out of the six Municipal departments reviewed did not have approved payroll exception procedures as required by P&P 24-10. As a result, SWS and Street Maintenance have been using unapproved time cards, and APD and AFD have been using unapproved time reporting procedures developed after the implementation of PeopleSoft in 1999. P&P 24-10 states that “. . . The Chief Fiscal Officer may grant exceptions to this policy/procedure if: (1) The agency head requests an exception in writing. (2) The Internal Auditor determines that other procedures are in place to provide sufficient internal control.”
- b. **Recommendation.** The Chief Fiscal Officer should ensure that Municipal departments follow standard payroll procedures or have payroll exceptions approved as required by P&P 24-10.
- c. **Management Comments.** Management stated, “Management concurs with the finding and recommendation provided. 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. P&P 24-10 should be reviewed and updated to meet current business practices where necessary.”

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

10. OMB Not Maintaining Master List of Municipal Take-Home Vehicles.

- a. **Finding.** OMB failed to maintain the master list of Municipal take-home vehicles and also failed to maintain the master list of vehicle authorization letters. As a result, the Payroll Supervisor may not be aware of all Municipal employees who should be taxed for this take-home vehicle benefit. P&P 76-3, *Municipal Take-Home Vehicles*, states that “The Management Analysis Officer in OMB shall: (1) Maintain the master list of all take-home vehicles in the Municipality. (2) Maintain the master file of vehicle authorization letters. (3) Review, analyze and maintain copies of monthly reports and letters of justification.”
- b. **Recommendation.** The OMB Director should compile the master list of all take-home vehicles in the Municipality and the master list of vehicle authorization letters.
- c. **Management Comments.** Management stated, “OMB concurs with the Internal Audit Finding that maintenance of the master list of Municipal take-home vehicles and the master list of vehicle authorization letters has not been consistently updated. OMB has struggled with significant turnover. As a result this task has fallen behind in compliance. Maintenance of the master list of Municipal take-home vehicles and the mater list of vehicle authorization letters has been reassigned and OMB will be in full compliance within 2008.”
- d. **Evaluation of Management Comments.** Management comments were responsive to the audit finding and recommendation.

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Discussion With Responsible Officials. The results of this audit were discussed with appropriate Municipal officials on February 20, 2008.

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