

April 7, 2010

Internal Audit Report 2010-03
Municipal Payroll
Finance Department

Introduction. The Municipality of Anchorage has a complex payroll system with about 300 different earnings codes and a variety of work schedules. The standard procedures require employees to 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 factored rate of pay. The Municipality uses the PeopleSoft Human Resources Time and Labor module (PeopleSoft) to record time and attendance data. 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 the 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 agencies (Fleet Maintenance Division, Traffic Department, Purchasing Department, Heritage Land Bank, Public Transportation Department and Controller Division) for the time period of January through December 2009. Additionally, we reviewed incentive pay and acting pay for accuracy and documentation to determine the adequacy of controls. Finally, we reviewed exemptions from the standard time sheet requirements to determine whether they 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 December 2009 through February 2010. The audit was requested by the Administration.

Overall Evaluation. Our testing of various payroll transactions identified several weaknesses. Specifically, we found that time sheets and leave slips were not always signed by the employee and/or approved by the supervisor. In addition, required documentation was not found to support training hours at Fleet Maintenance. We also found that overtime was not always supported with written approved documentation. Furthermore, payroll specialists did not always use the correct override pay rate for shift differential pay and acting pay was paid at the wrong pay rate to non-represented employees at Public Transportation. Finally, the Traffic Department was using a time sheet that was not approved by the Chief Fiscal Officer.

FINDINGS AND RECOMMENDATIONS

1. Employee Time Records Not Always Signed and Approved.

- a. Finding.** Time sheets and leave slips were not always signed by the employee and/or approved by the supervisor. Our review of time sheets and leave slips for two pay periods at Fleet Maintenance revealed 32 daily time sheets not signed by the employee and 12 daily time sheets not approved by the supervisor. In addition, four leave requests were not approved by the supervisor and one leave request was approved over a month after the leave was taken. P&P 24-10 requires employees to sign their time sheets or other time documents and also requires the supervisors to review and approve all time sheets and supporting documents. Without adequate supporting documentation, employees' time may not be properly recorded and management may not be appropriately controlling employees' work schedules.
- b. Recommendation.** The Fleet Maintenance General Foreman and the Payroll Specialist should ensure all time sheets or other time documents are signed by employees and approved by supervisors. In addition, all leave requests should be approved by the supervisors.

- c. **Management Comments.** Management stated, “Maintenance and Operations agrees with the recommendation from Internal Audit. We have emphasized the requirement for properly signed time records to our management team and instructed payroll clerks to ensure timecards are properly signed prior to data entry into the payroll system. Management will ensure all time documents are signed and approved.”
- d. **Evaluation of Management Comments.** Management comments were responsive to the audit finding and recommendation.

2. **Training Not Always Supported With Documentation.**

- a. **Finding.** Required documentation was not found to support training hours at Fleet Maintenance. Our review of one pay period revealed that all 160.5 hours of training by seven employees were not supported with appropriate documentation. In addition, review of a second pay period revealed that all 55 hours by 30 employees were also not documented. P&P 64-2, *Training and Educational Assistance Program*, requires an employee to complete a Request for Professional or Technical Training/Development Form (06-012) and have it approved by the agency head or designee. The approved form becomes a permanent record to be included in the employee’s personnel file. Upon completion of the course, the employee must provide completion documentation (certificate, grade, license, etc.) to the Payroll Specialist.
- b. **Recommendation.** The Fleet Maintenance General Foreman and the Payroll Specialist should ensure that all training and development is supported with an approved Request for Professional or Technical Training/Development Form (06-012).
- c. **Management Comments.** Management stated, “Maintenance and Operations agrees with the recommendation from Internal Audit. For municipal paid training or development, a Request for Professional or Technical Training/Development Form

(06-012) will be completed. For zero cost training, we have developed a short form to be filed with payroll records for training tracking purposes. The agency head or designee will sign training forms. The employee will provide documentation showing course completion to the Payroll Specialist.”

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

3. **Overtime Not Authorized Properly.**

- a. **Finding.** Overtime was not always supported with written approved documentation. Specifically, we found unscheduled overtime for 29.5 hours for three employees in the Controller Division that did not have written approval. P&P 40-9, *Documenting and Approving Overtime*, requires all requests for overtime to be approved by the agency head or designee(s).
- b. **Recommendation.** The Controller should ensure that overtime is documented and approved.
- c. **Management Comments.** Management stated, “The Controller has reviewed the payroll approval process for the Controller Division and has taken the necessary steps to ensure that all payroll documents are approved prior to processing.”
- d. **Evaluation of Management Comments.** Management comments were responsive to the audit finding and recommendation.

4. **Shift Differential Premium Not Correctly Calculated.**

- a. **Finding.** Payroll specialists did not always use the correct override pay rate for shift differential pay. Our review of two pay periods at Fleet Maintenance, Public Transportation, Information Technology, and Street Maintenance revealed that shift differential paid to non-represented employees was paid based on the employee's factored rate of pay instead of the base pay rate as required by AMC 3.30.1210, *Shift differential premium and meal allowance*. We also found instances where shift differential was paid based on the employees acting pay rate instead of their base pay rate.
- b. **Recommendation.** The Controller should instruct all payroll specialists to use the employee's base rate of pay when processing shift differential premium for non-represented employees.
- c. **Management Comments.** Management stated, "The Controller concurs with the finding and recommendation provided. The Controller will have the Central Payroll Office send out notification to Directors, Supervisors and Payroll Specialists that shift differential for NonRep employees should be paid at their base hourly rate of pay, not factored hourly rate of pay, pursuant to AMC 3.30.1210."
- d. **Evaluation of Management Comments.** Management comments were responsive to the audit finding and recommendation.

5. **Acting Pay Paid With Incorrect Rate.**

- a. **Finding.** Acting pay was paid at the wrong pay rate to non-represented employees at Public Transportation. Specifically, we found four non-represented employees who were paid acting pay at a higher rate (a high of 34% and a low of 21%) than specified by AMC 3.30.128, *Special types of appointments or assignments*, which states "Any

acting assignment to a higher class shall be paid at one step above the employee's present step in his own range, or, if he is already at the F step, he shall be paid at the E step in the next higher range." A similar finding was reported in Internal Audit Report 2009-12.

- b. **Recommendation.** The Director of Public Transportation should ensure that acting pay is computed in accordance with AMC 3.30.128 for non-represented employees.
- c. **Management Comments.** Management stated, "Public Transportation concurs fully with the finding and has prepared the following response:

"The issue was an oversight for a group of employees who were previously represented under the old JCC and later the Machinists Union CBA for 20 plus years and went non-represented after voting to de-certify from that union's representation.

"The Machinist's CBA provided: 'When an employee is temporarily assigned to work two (2) or more consecutive hours in a higher classification, within the bargaining unit, the employee will be compensated for all hours worked in the higher classification at step 1 in the higher classification or five (5) percent above his or her current rate of pay whichever is greater.'

"The issue was corrected on 3 March when the IBEW CBA went into affect after Assembly approval on 2 March. The new IBEW CBA provides similar language to the old Machinists CBA:

"1.1 *Work In Different Classification.* Assignment to work in a higher or different classification must be made by a MOA non-representative supervisor or designee other than the employee whose position is being filled.

“1.1.1 When an employee is temporarily assigned to work two or more consecutive hours in a higher classification, within the bargaining unit, the employee will be compensated for all hours worked in the higher classification at step 1 in the higher classification or five (5%) percent above his/her current rate of pay whichever is greater.”

- 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.** A substitute time sheet was used by the Traffic Department and had not been approved by the Chief Fiscal Officer. P&P 24-10 specifies that, “A substitute timesheet must have the prior written approval of the Chief Fiscal Officer.”
- b. **Recommendation.** The Traffic Department should obtain written approval of the Chief Fiscal Officer for their substitute time sheet or use the standard Municipal time sheet.
- c. **Management Comments.** Management stated, “The Traffic Department concurs with the recommendation presented by Internal Audit. Due to staff turnover, the department is unable to locate or verify if written approval was obtained from the MOA CFO which has allowed Traffic to utilize the substitute time sheet for the past eight (8) years at minimum. The department is in the process now of obtaining a current written approval from the MOA CFO to use the alternate time sheet in lieu of the standard Municipal time sheet. The standard Municipal time sheet does not address the project costing reporting needs of the department, contain enough lines for multiple project entries, or allow the employee to fill out the time sheet electronically.”

- 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.

Audit Staff:
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