CITY OF CLARKSVILLE
TENNESSEE

November 8, 2019

Audit Committee Members
Mayor Joe Pitts and City Council
City of Clarksville
Clarksville, Tennessee 37040

<u>Executive Summary of City General Payroll Audit</u>
The following is an executive summary of the objectives, findings, and recommendations related to the internal audit report on City General payroll from June 1, 2016 to October 31, 2017. The full audit report is attached and contains additional details about the audit results as well as management's responses. The full report also describes the audit methodology and provides more background and statistical information.

<u>Objectives of the audit</u>
The objectives of the audit were to determine the accuracy of payroll and recording of the related transactions in the financial records for the City, the adequacy of the design of the internal control system, and the compliance with applicable laws and policies.

<u>Brief Background</u>
Payroll, including salaries and benefits, is one of the largest expenditures for the City each fiscal year (FY). For FY 2018, total personnel expenditures were $60,991,545, which is 58% of all governmental fund expenditures. The Finance Department provides the payroll function for the 17 City General departments and also the Transit Department. Payroll is centrally processed on a semi-monthly basis without a time-lag for full time exempt and non-exempt employees, with a few exceptions. Timekeeping is a decentralized process and each department is responsible for the timekeeping of their employees. Generally, the HR Department is responsible for facilitating the hiring of employees and entering employee information into the City's ERP system (Munis), while the Finance Department is responsible for processing payroll and vendor payments for payroll deductions. The City Council must approve any general wage increases or any changes to the employee compensation plan.

<u>Conclusions of Report</u>
Our audit of City General payroll from June 2016 through October 2017 resulted in the following conclusions related to our original audit objectives. Payroll processing functions are not properly segregated and system access is not limited to the work required by each job role, although these controls are essential to preventing errors and fraud in the payroll process. Decentralized timekeeping with no timekeeping policy leads to individual departments having varied timekeeping processes related to timesheets and compensatory

time, which results in inconsistencies and potential noncompliance with FLSA, City Code, and City policies. While general wage increases and pay study implementation had high rates of accuracy, issues were noted for some employees which will require process improvements to ensure high accuracy in the future.

Key recommendations made included:
- limiting payroll and personnel functions in Munis, separating payroll employee changes from payroll processing, and improving the review process of each payroll
- updating the sick leave transfer policy
- tracking compensatory time in Munis and recording the liability in the City's financial statements
- implementing a timekeeping policy and training
- implementing an electronic timekeeping system to improve efficiency and accuracy of timekeeping and payroll city-wide
- performing verification of mass pay changes and ensuring adherence to City Code

If you have any questions about the audit, the findings, or the recommendations please contact me at 648-6106.

Respectfully,

Rodney Wright
Director of Internal Audit

cc: James Halford, Chief of Staff
        Laurie Matta, Chief Financial Officer
        Will Wyatt, Human Resources Director
        Amie Wilson, IT Director

Internal Audit Report

Audit Title: **City General Payroll Audit**

Department: **Finance and Human Resources**

Audit Period: **June 1, 2016 to October 31, 2017**

CITY OF CLARKSVILLE
FINANCE AND HUMAN RESOURCES DEPARTMENTS
CITY GENERAL PAYROLL AUDIT
AUDIT # 1901

Cassie Wheeler
Cassie Wheeler
Auditor

Rodney Wright
Rodney Wright
Director of Internal Audit

November 8, 2019
Date

CITY OF CLARKSVILLE
INTERNAL AUDIT REPORT

City General Payroll Audit
June 1, 2016 to October 31, 2017

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Internal Audit Report

Origin of the Audit

This audit was conducted as a part of the annual audit plan approved by the Audit Committee for the fiscal years 2018-2020.

Audit Objectives

The specific audit objectives were:
- Determine the accuracy of payroll and recording of the related transactions in the financial records for the City
- Determine the adequacy of the design of the internal control system
- Determine compliance with applicable laws and policies

Scope and Methodology of the Audit

The audit covered the time period from June 1, 2016 to October 31, 2017. During the audit, Finance identified an issue related to sick leave solicitation approvals and reported that information to Internal Audit. Based on that information, we expanded the audit scope to include excess sick leave donations between May 2018 and January 2019. Evidence to support our conclusions was gathered from inquiries of management and staff, as well as observations of source documentation and tests of the controls surrounding the payroll process. We also considered and evaluated the following components of internal control: the control environment, risk assessment, control activities, information and communication, and monitoring.

The entire population of full time employees was tested in relation to the general wage increases and pay study implementation occurring during the audit period. Samples were selected from populations of exempt and non-exempt employees to determine the accuracy of paychecks. A combination of random selection and auditor judgment was used to select samples; therefore, the results should not be projected to the population.

CDE Lightband and Clarksville Gas & Water were excluded from the audit scope.

Statement of Auditing Standards

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Background

Payroll, including employee salaries and benefits, is one of the largest expenditures for the City each fiscal year (FY). For FY 2018, total personnel expenditures were $60,991,545, which is 58% of all governmental fund expenditures.

The Finance Department has provided the payroll function for the employees of City General departments since this responsibility was transferred from the Human Resources (HR) Department in July 2015. Finance also began processing payroll for the Transit Department January 2016. Payroll is centrally processed on a semi-monthly basis and without a time-lag for full time, exempt and non-exempt employees, except for the Mayor, City Council, and crossing guards, which are paid on a monthly basis. Since payroll is processed with no time-lag, all full time employees are paid an average number of hours each period, plus any overtime worked in prior periods.

Timekeeping is a decentralized process and each department is responsible for the timekeeping of their employees. Payroll is currently set up as an exception based system, which requires manual entry of overtime, vacation leave, sick leave, and other pay types. Some departments use an electronic process within Munis Employee Self-Service (ESS) to request and approve vacation and sick leave, while other departments process these requests manually. Department timekeepers enter these pay types in batches each pay period, which are approved by a supervisor. Once approved, the batches, along with approved ESS entries, are added to payroll by the Payroll Administrator.

Generally, the HR Department is responsible for facilitating the hiring of employees and entering employee information into the City's ERP system (Munis), while the Finance Department is responsible for processing payroll and vendor payments for payroll deductions. When needed, an HR Analyst sets up new employees, makes pay changes to existing employees, and inactivates terminated employees within Munis. This record is then transferred to the Payroll Administrator, a Finance employee, who inputs additional information like deductions and benefits, and reviews information entered by HR. The Payroll Administrator then approves the change. The Payroll Administrator can modify the HR record prior to approval. Once approved and posted, the new employee is added to the payroll system, pay changes are applied, or terminated employees are removed from the payroll system.

The City Council must approve any general wage increases (GWI), which are historically voted on as part of the annual budget ordinances for the City. The City Council must also approve any changes to the employee compensation plan. On July 6, 2017, the Council approved a revised pay study performed by a consultant. During the respective budget seasons, the Council approved GWIs effective July 2016 and July 2017.

There have been no material misstatements identified in any of the financial statement audits performed by external auditors for any of the fiscal years within and after the audit period.

Statistical Information

The following chart shows the total number of employees receiving a paycheck by calendar year as reported on the W-3 report:

	2015	2016	2017
City General	1,298	1,289	1,316
Transit	n/a*	95	104
Total	**1,298**	**1,384**	**1,420**

*City General did not process Transit payroll in 2015.

Please note the W-3 reports do not reflect the total number of positions within the City, but include the total number of full time, part time, temporary, and seasonal employees paid during the calendar year.

Using information from the City's Comprehensive Annual Financial Report for FY 2015-2018, as well as salaries and wages expenditure totals from Munis, the following table compares personnel expenditures to the total expenditures for governmental funds:

	FY 2015	FY 2016	FY 2017	FY 2018
Personnel	55,446,594	57,608,744	59,168,688	60,991,545
Capital Outlay	9,207,343	14,103,730	8,810,767	13,461,450
Other	29,122,328	30,084,821	31,089,328	31,369,219
Total	**93,776,265**	**101,797,295**	**99,068,783**	**105,822,214**

Results of Audit

Auditor testing and research resulted in the following findings and recommendations:

1. <u>Segregation of duties and user access issues</u>

   <u>Criteria:</u>
   Access to and user permissions for payroll should be restricted based on the job duties of each individual employee. Payroll duties and associated user roles should be properly segregated to reduce the risk of payroll fraud. No individual should have the ability to set up a new employee, make changes to employee pay, and process payroll.

   <u>Condition:</u>
   Four Finance employees, including the Payroll Administrator, and six Information Technology (IT) employees have the payroll superuser permission. Payroll superusers have unrestricted access to all functionality within the payroll programs in Munis. The Payroll Administrator can edit HR's personnel actions, which bypasses the segregation of duties controls in place. The Payroll Administrator also has the ability to make changes to employee pay and deductions within the payroll process. The review performed by the Senior Accountant is minimal and completed after payroll is sent to the bank for processing.

Cause:
There is a policy for granting permissions in Munis, which was updated to include approval of the CFO, and implemented during the audit. However, the policy does not establish a process for periodic review of employee permissions. The roles within the payroll process have not been properly segregated.

Effect:
User access in Munis and job duties associated with payroll are not properly segregated, which increases the risk of payroll fraud and the potential for errors.

Recommendation:
Management should clearly define the department and/or employees responsible for validating and implementing employee payroll changes, processing payroll, and review of payroll. The review process should be strengthened and completed before payroll is submitted to the bank.

Finance and IT should review all roles and permissions to ensure employees have proper access in Munis. The roles should be better defined and controlled. Management should inventory existing permission roles, assess who needs what roles, test role functionality to ensure access is limited to what is necessary, and review roles and assignments at least annually. Management should assess the need for superuser permissions and determine appropriate access to payroll and personnel functions in Munis. If the superuser permissions remain active, the payroll review process needs to be further strengthened to mitigate the risks associated with unrestricted access to payroll functions.

During the audit, IT and Finance personnel began working to address some of these issues. IT personnel is currently creating reports to assist management in monitoring changes made to employee and pay records. Also, IT updated their Permissions Approval Policy to improve role assignments, which consists of email correspondence from the department head to IT and the CFO for permission approvals. Management should continue working with IT to ensure these solutions adequately address the issues noted above, including refining information contained in reports and adding the reports to the review process as a compensating control.

Management Comments:

Agree _____X_____   Disagree _____

Corrective Action Plan:
Finance: The CFO will work with IT to establish a formal process to review user access to Munis and update the IT policy to include this review process. The CFO is working with HR to compile specific tasks within the payroll process to best determine proper segregation of duties. Roles and responsibilities will be assigned appropriately. During the audit, the CFO began implementing a review of each payroll prior to submission to the bank for direct deposit. This responsibility is to be assigned to the Finance Manager who will oversee the payroll process. Finance will continue to work with IT on superuser access.

IT: Review of roles and permissions began September 3, 2019 and changes will be made as necessary. Approvals are maintained in the IT work order system.

HR: HR will work with Finance/Payroll to help ensure that there is ample segregation of duties. We will further define specifically what duties HR will complete vs which Finance/Payroll will complete. Roles will be reviewed with IT to ensure appropriate access.

Projected Completion Date: June 30, 2020

Responsible Manager: Laurie Matta, Will Wyatt, and Amie Wilson

2. **Sick leave donations are not always processed according to policy**

Criteria:
City Personnel Procedure 91-4 *Sick Leave Transfer Program* **states that a City employee, who does not have sufficient accumulated sick leave and/or annual leave, can receive donated sick leave time from other City employees for Family Medical Leave Act qualifying events. As written, the process is as follows:**

- **Department heads submit the "Sick Leave Transfer Request" form to HR for approval. If approved, department heads will notify their employees of the need for solicitation and will coordinate the request within the department. If sufficient sick leave is not donated within the employee's department to cover the period needed, the HR Director may approve a city-wide solicitation.**
- **Excess sick leave accumulated in the account of the recipient will remain in the recipient's account and cannot be returned to the donors. The recipient is expected to donate the unused excess donated sick leave to another recipient in the future.**
- **Human Resources will coordinate the city-wide solicitation and will maintain necessary records of the transfer of unused sick leave from one employee to another.**

Condition:
The current process being followed for sick leave transfer requests is not compliant with the existing policy.

- **The Payroll Administrator, a Finance Department employee, maintains transfer records from one employee to another and processes transfers without approval confirmation from HR. Additionally, there is no oversight of transfers that are performed by the Payroll Administrator.**
- **A spreadsheet maintained by the Payroll Administrator, known as the "sick bank," is currently used to maintain and monitor excess donated hours. This was created in 2018 by the Finance Department in an effort to improve the previous sick leave transfer process. There is no policy provision for the creation of a sick bank.**

We tested the seven sick bank transfers and found the following exceptions:

- **Two instances where a Finance Department employee was able to donate time to another Finance employee without an approved sick leave solicitation. The "Sick Leave Transfer Request" form was not completed. The two Finance employees received sick hours from the sick bank without an approved city-wide solicitation, contrary to the unwritten procedure. The Finance Department was able to reverse the second instance before the hours were used.**

- **Two other employees with approved departmental solicitations received sick bank hours without the approval of a city-wide solicitation.**
- **One department timekeeper improperly processed a departmental transfer twice, but the duplicate hours weren't needed by the recipient. This resulted in 156 hours added to the sick bank in error and 96 hours returned to a donor in error. Once corrected, the sick bank balance was negative.**
- **Hours from a Clarksville Gas & Water (CGW) employee were donated to a City General employee, but not deducted from the CGW employee's available balance. CGW's payroll system is separate from City General's payroll system and the transfer was processed by City General and not communicated to CGW. This was corrected during the audit.**

Cause:
Neither the existing policy nor current practice are adequately designed to allow for proper segregation of duties and oversight of the process. The sick leave transfer policy has not been updated to reflect the use of a sick bank for excess donated hours. Further, there is not a clear delineation between the Finance and HR departments regarding responsibilities within this process.

Effect:
Process changes which are not accompanied by a corresponding policy update may result in inconsistencies and errors in sick leave transfers. A lack of segregation of duties, along with a lack of process oversight, allows the opportunity for misuse of donated hours.

Recommendation:
The sick leave transfer policy should be updated to include:
- **Clearly defined sick leave solicitation process and responsibilities of HR, Finance, and other departments. These should include proper segregation of duties to ensure one employee does not have complete control of processing sick leave transfers with no review in place.**
- **Clearly defined procedures and criteria related to the creation and operation of a sick bank, if management determines a sick bank is the best course of action to manage donated hours. Consider using the policies of the State of Tennessee or APSU for guidance if adopted by management. If management decides not to utilize a sick bank, the existing policy will require revision to ensure donations are processed on a first come, first served basis to prevent excess donated hours.**
- **Requirements to use Munis to track the sick bank, if applicable.**
- **Updated criteria for a sick leave solicitation to be based on a medical emergency as defined by the IRS to ensure tax law compliance.**

Management Comments:

Agree _____**X**_____   **Disagree** _____

Corrective Action Plan:
Finance: Finance will work with HR, and ultimately the Mayor's Office, to determine the best course of action for this benefit; whether it be continued use of the current policy or developing a new policy. If a sick bank is used, Finance will work to fully utilize the automated process in Munis

and design adequate controls. In the meantime, Finance has implemented a sign off on the sick leave transfer form from HR prior to entering the transfer in the payroll system.

HR: HR/Benefits is currently reviewing options for modification to the policy for easier management and tracking. The policy will be updated to base sick leave solicitations on a medical emergency as defined by the IRS.

Projected Completion Date: March 2020

Responsible Manager: Will Wyatt and Laurie Matta

3. **Compensatory time liability not recorded in City's financial records**

Criteria:
The Fair Labor Standards Act (FLSA) Sec. 207(o), allows local government employees the option to receive compensatory time off, at a rate of not less than one and one-half hours for each overtime hour worked, instead of cash overtime pay. Law enforcement and fire protection personnel may accrue up to 480 hours of compensatory time; all other local government employees may accrue up to 240 hours.

Per GASB Statement No. 16, compensatory time should be accrued as a liability based on its similarities to vacation leave.

Also, City Personnel Procedure 92-2 *Overtime and Compensatory Time* states each departmental payroll section will monitor the accumulation of compensatory time to ensure compensatory time does not exceed the limits set forth by the Department of Labor.

Condition:
Compensatory time is tracked manually at the department level only. Employee compensatory time balances are not communicated to Finance. The employee compensatory time liability is not recorded in the City's financial statements.

Cause:
There is no process requiring departments to report employee compensatory time balances to Finance. The responsibility of tracking compensatory time has been left to the individual departments and not managed or reviewed by Finance.

Effect:
Insufficient monitoring of compensatory time and not recording the associated liability could result in employees accruing more than the maximum allowed per FLSA, as well as potential noncompliance with generally accepted accounting principles established by GASB.

Recommendation:
Finance should monitor and record compensatory time earned and used in the general ledger. This information can be tracked efficiently in Munis. Limits can be set within the system to ensure compliance with the City's policies and FLSA. Management should update City Personnel

Procedure 92-2 to mandate tracking compensatory time earned and used by non-exempt employees in Munis and also add this to the timekeeping policy recommended below.

Management Comments:

Agree _____X_____   **Disagree** _____

Corrective Action Plan:
Finance: Finance collected all comp time balance reports from each department and will record as necessary. The new timekeeping software (planned implementation in August 2020) will include comp time tracking. Finance will work with HR to verify comp time is administered as per policy.

HR: HR to update Personnel Procedure 92-2 to require tracking of comp time in Munis.

Projected Completion Date: December 2020

Responsible Manager: Laurie Matta and Will Wyatt

4. **Timekeeping process needs improvement**

Criteria:
FLSA Sec. 211(c) requires employers to retain records of identifying information, hours worked, and wages earned for each non-exempt employee. City Code Appendix D, Records Retention Policy, requires these records to be retained for five years.

In regards to timing of overtime payments, the Department of Labor requires that overtime payment may not be delayed for a period longer than is reasonably necessary for the employer to compute and arrange for payment of the amount due and in no event may payment be delayed beyond the next payday after such computation can be made. While an exemption allows sworn police and fire personnel to be paid overtime on a "work period" basis, civilian employees of these agencies are specifically not included.

Additionally, the Department of Labor regulations allow an employee to decide whether to accept compensatory time off in lieu of cash overtime payments and require that the decision must be made freely and without coercion or pressure.

Condition:
Based on the timekeeping questionnaire responses of 17 departments, the following exceptions were noted:
- Three departments do not maintain timesheets for non-exempt employees.
- Two departments require employees to earn compensatory time for hours worked instead of giving the option to receive overtime compensation.
- All employees of one public safety department document hours worked on 28-day timesheets. However, there are approximately 65 non-sworn/civilian employees that do not qualify for the FLSA public safety exemption, who could earn overtime and would potentially not receive overtime payments timely.

- One department has some non-exempt employees that complete monthly timesheets. This could potentially lead to untimely overtime payment.
- Six departments do not retain timesheets up to the required five year retention period and five departments retain timesheets longer than the required retention period. Two departments have undefined retention periods.

One paycheck during the audit period was selected for review from 28 non-exempt employees and the following exceptions were noted:
- For two employees reviewed, the time card did not match the leave slip and/or time entry in Munis.
- All leave slips provided by one department were not signed by the department head.
- Three employees did not receive the correct overtime payment.
- Actual hours worked per a schedule maintained by supervisor did not match the total daily hours on timesheet for one employee.
- Of the 14 departments that maintain timesheets, seven departments were found to be missing documented evidence of employee and/or supervisor approval of timesheets for non-exempt employees.
- One department allowed employees to clock in early before scheduled work begins. While overtime was not paid on the additional time recorded, the timekeeping documentation is inconsistent with hours paid to the employees.
- Holiday hours earned were inconsistent across departments.
- One department treated compensatory time used as hours worked, which resulted in employees earning additional compensatory time for previously earned compensatory hours. This treatment is inconsistent with other departments.

Based on payroll costing analysis and process review:
- Department level timekeeping responsibilities are inefficient and costly in terms of time and salary.
- Non-exempt employees are paid an average hours worked each pay period for regular hours. This causes additional tracking and reconciliation to ensure that actual hours worked are paid and overtime is calculated correctly.
- The current payroll method does not include a lag for processing time. This method requires an estimate of hours worked each pay period between payroll processing and the pay period ending. Not only are employees paid for time not actually worked yet, but also this causes inefficiencies in tracking sick or vacation time if used between payroll processing and the end of the pay period.

<u>Cause:</u>
There is not a timekeeping policy to provide clear guidelines to each department on the rules of timekeeping and responsibilities of the timekeepers and supervisors. Timekeeping is a decentralized, time consuming, manual process and the timekeeping practices of each department are not monitored by HR or Finance to ensure compliance with federal laws and existing City policies.

Effect:
The lack of a timekeeping policy results in inconsistent timekeeping practices and documentation amongst City departments. Further, inconsistencies in documentation for non-exempt employees may lead to potential noncompliance with FLSA.

Recording hours worked on a monthly timesheet or 28-day timesheet for employees that do not qualify for the FLSA public safety exemption unnecessarily prolongs or extends the time period in which employees are compensated for overtime hours worked.

The use of average hours per pay period versus actual hours, while resulting in consistent paycheck amounts for each pay period, increases the difficulty of proving employees are paid for actual time worked and creates potential for errors in calculating overtime.

Recommendation:
Finance, with input from HR, should implement a timekeeping policy to ensure consistency among all City departments. The timekeeping policy should address the following:
- Require the use of timesheets or time cards to document hours worked for non-exempt employees and the minimum required information that the timesheet/time card should contain
- Hours reflected on paychecks should be the actual hours worked for the period, not an average hour calculation for the year
- Define units of time and rounding, for example quarter hour calculations
- Require employee and supervisor approval of time worked
- Define the time entry process in Munis
- Require tracking of compensatory time earned and used for non-exempt employees in Munis
- Require all departments to use ESS to promote consistency and eliminate excess timekeeping documentation
- Define holiday hours earned to standardize across City departments, including floating holiday hours
- Include record retention rules of timekeeping documentation including timesheets, time cards, leave slips, etc.
- Define special requirements for public safety employees allowed by FLSA

Finance should provide timekeeping training for department timekeepers and supervisors, with a periodic refresher training at least annually. Finance should create a periodic review process of each department's timekeeping practices to ensure accuracy and consistency, as well as to confirm that proper records are maintained.

An essential step to standardizing timekeeping and ensuring departmental compliance is implementing an electronic timekeeping system city-wide. This would reduce manual work performed by administrative employees in each department and it could reduce errors that lead to potential FLSA violations. The electronic timekeeping system can be programmed to mirror the timekeeping policy and will allow for Finance & HR review of individual timekeeping records.

As recommended in the previous payroll audit, creating a payroll lag and moving to a bi-weekly payroll could improve efficiencies. A payroll lag is essential to the implementation of an electronic timekeeping system.

Management Comments:

Agree _____X_____   Disagree _____

Corrective Action Plan:
Finance: Finance is working with IT to identify a timekeeping system to be implemented city-wide. The plan is to roll out the software with the payroll lag and 26 pay period implementation in August 2020. The CFO, with input from HR, will develop a timekeeping policy to ensure consistency. Training will be developed to accompany the new policy and software.

HR: Provide input to Finance/Payroll to implement a true timekeeping policy.

Projected Completion Date: December 2020

Responsible Manager: Laurie Matta and Will Wyatt

5. **City Code noncompliance related to employee compensation**

Criteria:
City Code states:
- Probationary employees are not eligible for any wage increase until the end of their probationary period (Sec 1.5-405.a(2))
- Employees who have been subject to disciplinary action during the performance review period will not be eligible to receive a salary increase until the performance review filing period has expired (Sec 1.5-405.a.(1))
- An employee who has been demoted as a result of the employee discipline process shall have his pay reduced to a level between the minimum and the midpoint of the salary range for the lower level job position (Sec 1.5-405.h.(1))
- Employees will not be eligible for base pay increases beyond the range maximum for their job position classification rating (Sec 1.5-404.b.)
- Individual equity adjustments require a request from the department head containing the reasons for the proposed adjustment and they shall not exceed the maximum of the range for the job position classification of the employee (Sec 1.5-405.c.)
- For longevity pay, in the event of retirement, the employee shall receive a prorated portion of the longevity pay calculated, including the full month in which the employee retired (Sec 1.5-406.b.)

Although not written in City Code, it is a standard practice for an employee in a temporary job position reassignment (also called out of class pay) to not receive a GWI until returning to their original position.

Condition:

For FY 2017, City Council approved a 2% GWI for eligible employees. In FY 2018, an updated pay study was approved by City Council which resulted in some employees receiving a new pay rate. If an employee's salary was unaffected by the pay study, those eligible received a 1.5% GWI. All full time employees were tested by comparing June 30 pay rates to July 15 and/or July 31 pay rates for both FY 2017 and FY 2018.

For the FY 2017 GWI, 842 full time employees were tested and no issues were identified with 98.3% of salary changes. For the FY 2018 pay study and GWI, 860 full time employees were tested and no issues were identified with 95.1% of salary changes.

The following exceptions were noted:
- Four employees received GWI before their probationary period ended in FY 2017 and 28 employees received GWI before their probationary period ended in FY 2018.
- Five employees did not receive GWI when eligible for FY 2017 and four of those employees plus four other employees did not receive GWI when eligible for FY 2018. Employees were on probation at the time of the GWI. Once probation ended, employees did not receive GWI. Of the nine total employees:
  - One was corrected prior to the audit
  - Two were noted by the auditor and reported to management
  - Five received a retro payment to correct the GWI error, but the retro calculations were incorrect
  - One employee had resigned and was not corrected
- The salary of two employees is over the maximum of the pay grade in FY 2017.
- Two employees were demoted prior to the FY 2017 GWI & and two employees were demoted prior to the FY 2018 GWI. Their revised salary was above the midpoint of the pay grade. Also, the four demoted employees received the GWI.
- Three employees received the GWI while in out of class pay status in FY 2018.
- One employee's salary is incorrect prior to FY 2018 GWI due to error on the change of status form when returning to normal position after out of class pay status ended.
- Three employees received the wrong GWI for FY 2018. Of those, two received 1.5% GWI twice. One employee received 2% GWI, but this was corrected during the 8/31/17 pay period. However, there was no adjustment to the employee's pay to correct the overpayment.
- Annual salary is not accurate for one employee for FY 2017. An employee received a 2% GWI near their anniversary date after having already received a 2% increase based on a pay scale shift effective 7/1/16. The pay scale shift should have taken the place of the GWI.
- The FY 2018 budget ordinance allowed for a one time lump sum payment to those employees at the maximum of their pay grade. One employee's stipend was prorated due to retirement, which was not authorized by the budget ordinance.
- Three of 11 equity adjustments dated effective 7/1/17 did not have the required justification documentation attached.
- A department head requested an equity adjustment for an employee who was at the maximum of the range for the employee's job position classification. A one-time stipend was issued to the employee in the amount of the requested equity adjustment.

All FY 2017 longevity payments were tested and 98.8% of the payments were compliant with City Code. Of the 594 payments issued, seven were not calculated correctly. All seven exceptions are due to manual calculation errors of prorated longevity payments for recently retired employees.

Cause:
Issues related to probationary periods are caused by a difference in City Code interpretation. Employees enter a new probationary period when they are promoted; however, management interprets the City Code requirement for probationary employees as applying only to new probationary employees.

Finance relies on individual departments to report employee status information, e.g. when an employee has completed probation or is in out of class status. During the audit period, the employee status information from the departments was not always verified for completeness. Additionally, a detailed review of change of status forms completed by departments was not always performed.

The written justifications were not required to be completed and submitted with the employee status change form for equity adjustments requested by department heads before the change of status form was approved.

Manual calculations were used to determine years of service and/or proration instead of using a formula for prorated longevity payments. The longevity payments were issued to retirees with no calculation verification process prior to issuance.

Effect:
Inaccurate compensation can negatively impact the City's budget and expenditures, employee morale, and public perception.

Recommendation:
To ensure compliance with City Code and complete accuracy of general wage increases and pay study implementation, management should perform a verification process before payments are issued and then again after changes are made using earnings history data from Munis to verify that changes were applied appropriately.

Additionally, management should ensure adherence to the City Code when processing changes to employee pay. In the cases where management does not agree with City Code, they should propose amendments to present to City Council to address areas needing updates. Management should implement a thorough review process of all change of status forms completed by department heads for accuracy.

Payroll should address any remaining discrepancies that have not already been addressed for employee compensation noted above or communicated verbally during the audit.

Management Comments:

Agree _____X_____   Disagree _____

Corrective Action Plan:
Finance: The CFO, or designee, will develop controls with the Finance Manager having review and oversight of the payroll process, including changes to compensation. Any exceptions identified will be researched to ensure compliance with City Code.

HR: HR will help Finance/Payroll ensure that employees are given a GWI, as appropriate, when coming off of probation and will report disciplinary actions, along with the certification to Payroll. HR will also revise City Code to differentiate between initial probation with the City and promotional probation. HR is currently reviewing Human Capital Management (HCM) software that will help track and automate workflow, including the processing of GWI for probationary employees when they come off probation (to include the department indicating they are approved to come off probation). HCM software will also reduce manual calculations and help reduce human error in assigning pay.

Projected Completion Date: City Code revision: June 2020; HCM implementation: July 2021

Responsible Manager: Will Wyatt and Laurie Matta

6. **General wage increases applied to all eligible employees without confirming annual performance evaluations are completed**

Criteria:
City Code Sec 1.5-801 states all regular, full time employees will receive a performance evaluation at least annually. Before a regular employee can receive a salary increase or a longevity bonus, there must be a current performance evaluation on file with the HR Department with an overall rating which meets or exceeds expectations. The HR Department will certify to the payroll section that there is a current and satisfactory performance evaluation on file before any change in salary or longevity bonus payment is made. Department heads are responsible for assuring that performance evaluations are completed. No salary adjustment may be made for a department head unless and until every employee within the department has a current evaluation completed.

Condition:
Employees received a general wage increase and longevity bonus without confirmation that a current annual evaluation was completed. Also, longevity payments are given to employees without a certification of the annual evaluation completion from HR. This was also a finding in the previous payroll audit issued April 2013.

Cause:
The HR Department did not verify performance evaluations were completed and Finance did not require a certification from HR before the general wage increase was applied. This is likely due to the current manual, labor intensive evaluation documentation and approval process. Department heads were not held accountable to ensure every employee within their departments had a current evaluation. The Finance Department applied pay increases as approved by the City Council and made longevity payments to eligible employees without certification from the HR Department.

Effect:
The City was not in compliance with the City Code requirements. The lack of employee performance documentation could put the City at risk when disciplinary actions are taken based on job performance. Also, without evaluations, management was not documenting that employees received the guidance and feedback necessary to perform their jobs.

Recommendation:
After discussing the repeat finding with management regarding the City Code requirements related to performance evaluations, the HR Director notified department heads that the City Code requirement would be enforced in March 2018 and again in April 2019. While outside of the audit period, management has taken steps to enforce completion of employee performance evaluations. Management also needs to take steps to certify all evaluations are up to date before longevity payments are issued to eligible employees.

Management should consider implementing an electronic employee evaluation system to help efficiently facilitate and track the employee evaluation process.

Management Comments:

Agree _____X_____   **Disagree** _____

Corrective Action Plan:
Finance: Beginning July 2018, HR sends an email annually to notify Finance which employees should not receive a GWI for the fiscal year. Finance views this as HR's certification.

HR: HR will continue to track performance evaluations for purposes of eligibility for general wage increase and longevity pay. Performance Management software is currently being reviewed and evaluated for inclusion with ERP/HCM software.

Projected Completion Date: July 2021 for ERP/HCM software

Responsible Manager: Will Wyatt

Other Recommendations

Per the IT Director, Munis support offers a review of current practices for one module and training related to that module annually. The City may benefit from such a review of the Human Resources and Payroll modules in Munis to ensure each are being used to their fullest capabilities. A review of the current process and training from Munis would likely improve efficiencies and ensure staff is aware of the features that could help facilitate a smoother payroll process.

Management Comments:

Agree _____X_____   **Disagree** _____

Corrective Action Plan:
Finance: In June 2019, IT shared this available training with the Finance Department which we immediately signed up for.

Projected Completion Date: June 2019

Responsible Manager: Laurie Matta

Conclusion

Our audit of City General payroll from June 2016 through October 2017 resulted in the following conclusions related to our original audit objectives. Payroll processing functions are not properly segregated and system access is not limited to the work required by each job role, although these controls are essential to preventing errors and fraud in the payroll process. Decentralized timekeeping with no timekeeping policy leads to individual departments having varied timekeeping processes related to timesheets and compensatory time, which results in inconsistencies and potential noncompliance with FLSA, City Code, and City policies. While general wage increases and pay study implementation had high rates of accuracy, issues were noted for some employees which will require process improvements to ensure high accuracy in the future.

Key recommendations made included:
- limiting payroll and personnel functions in Munis, separating payroll employee changes from payroll processing, and improving the review process of each payroll
- updating the sick leave transfer policy
- tracking compensatory time in Munis and recording the liability in the City's financial statements
- implementing a timekeeping policy and training
- implementing an electronic timekeeping system to improve efficiency and accuracy of timekeeping and payroll city-wide
- performing verification of mass pay changes and ensuring adherence to City Code

We would like to thank the Finance Department staff, HR Department staff, and other departments tested for their help and support during the performance of this audit. Their positive attitude facilitated the conduct of the audit and provides the necessary environment for process improvements to take place.

If further information about this audit is desired, please contact Internal Audit at 931-648-6106.