

Audit #14-08:

Payroll Operations

Executive Summary Report

Office of the City Auditor and Clerk
Internal Audit

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EXECUTIVE SUMMARY

AUDIT #14-08 SPD PAYROLL OPERATIONS

AUDIT PURPOSE / SCOPE

This audit was undertaken to provide reasonable assurance that adequate controls exist and are functioning as intended over the City of Sarasota's Payroll Operations. The completion of an independent internal audit of property and evidence was included in the 2013 City Risk Assessment. The time period reviewed during the audit was January, 2013, to June 30, 2014.

REPORT CONTENT AND LIMITATION OF USE

This executive summary report is limited in detail. In order to obtain the full background on a particular item, please contact Internal Audit prior to drawing conclusions based on the limited information contained in this report. Objective ratings indicate the levels at which the objectives were met; rating definitions are included in the appendix included at the end of this report.

AUDIT CONCLUSIONS

The results of our review indicate that Controls and access to payroll records were generally satisfactory. Payments were made only to valid employees. Payments were properly authorized. Payroll costs were generally correctly recorded. There were gaps in employee payroll data. Payments were generally correctly calculated, however there were errors and omissions in employee leave calculations.

Payroll general ledgers were reconciled accurately, timely, and approved by the appropriate authority.

Payroll operations did not always comply with current City of Sarasota policies and procedures, administrative regulations, municipal codes, state and federal regulations and statutes.

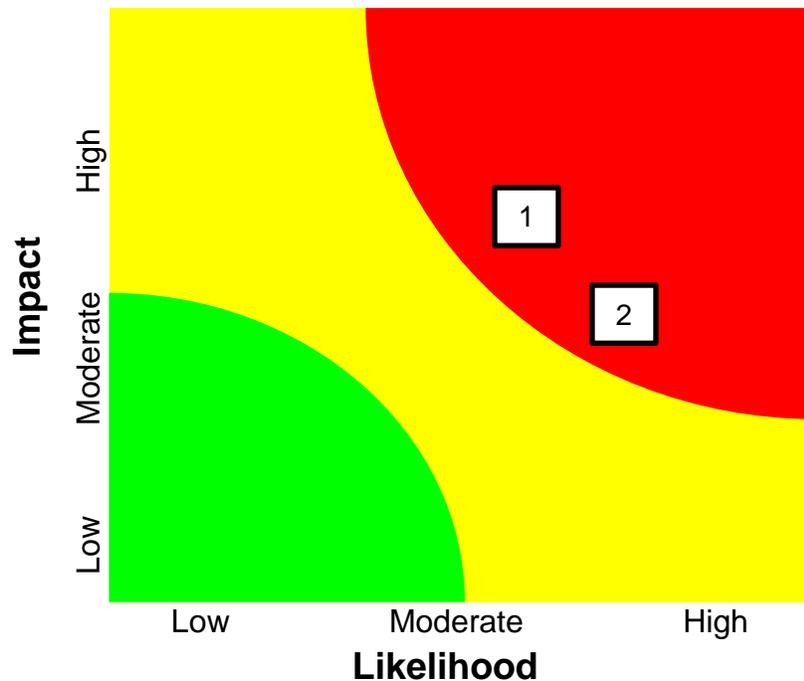
This audit focused on the following objectives:

Audit Objective	Objective Rating		
1.) Determine whether adequate controls exist and are functioning as intended, including but not limited to: Access to records is limited and controlled, payments are made to valid employees only, all data input is properly authorized, data is accurate and complete, payments are correctly calculated, and payroll costs are correctly recorded; and		X	
2.) Determine whether there is reasonable assurance that payroll general ledgers are reconciled accurately, timely, approved by the appropriate authority; and	X		
3.) Determine whether Payroll Operations complies with current City of Sarasota Policies and Procedures, Administrative Regulations, Municipal Codes, State and Federal Regulations and Statutes.		X	

The two significant audit observations (high-priority items) are highlighted below. For a complete list of audit items, see pages 4-9 of this report.

Significant Observations	
Observation	Original Priority
1. PAP forms are not always signed by the 3 required individuals, department director, City Manager, and the Director of Human Resources.	High
2. Signed supervisory time off approvals are not maintained on file in all departments.	High

Risk Exposure Map



AUDIT #14-08 OBSERVATIONS AND RECOMMENDATIONS

Management Action Plans					
Audit Recommendation Internal Audit Comment (red text)	Priority	Concur	Do not concur	Proposed Management Action Management Response (black text) City Auditor and Clerk (green text) SPD Response (blue text)	Action Item Due Date
<p>1. We recommend that PAP forms be completed in accordance with City's Personnel Rules and Regulations. In the event that any party decides to delegate his or her authority, that it be documented on the appropriate form and filed with the custodian (the Purchasing Manager) designated by City policy.</p> <p style="color: red;">Auditor's Comments – City Rules 11.9.D, 11.13.A, 11.13.B and 11.14.C specify the requirement for the signature of the City Manager or City Auditor and Clerk for their respective employees. See also the PAP form attached to Rule 11 for the required signatures.</p> <p style="color: red;">SPD PAP forms still require the signature of the City Manager.</p>	High	City Mgr	CAC SPD	<p>City Manager - Management recommends the Director of Human Resources utilize the "Authorization Signature of Internal Documents by Department's form to document approval to sign PAPs on behalf of the City Manager. The Director of Human Resources will request authorization to sign as a designee for the City Manager and City Auditor and Clerk and if authorization is not granted then the Charter Officials will be asked to sign the PAPs.</p> <p style="color: green;">The City Auditor and Clerk does not delegate her signature authority, personally signing the PAP forms for employees in the office of the City Auditor and Clerk.</p> <p style="color: blue;">SPD - All PAP's are signed by our Chief or Deputy Chief of Police.</p>	City Manager 3/31/15

AUDIT #14-08 OBSERVATIONS AND RECOMMENDATIONS

Audit Recommendation Internal Audit Comment (red text)	Priority	Concur	Do not concur	Proposed Management Action Management Response (black text) SPD Response (blue text)	Action Item Due Date
<p>2. Departments implement procedures to maintain signed copies of supervisory approvals as required for all categories of time off.</p> <p style="color: red;">Auditor's Comments - As noted in the Observation, we observed a lack of documentation of supervisory approval of time off, specifically related to sick leave exceeding 72 hours. These leave approvals require the signatures of the Department Director, the Human Resources Director and the appropriate Charter Official. As noted in the Observation section, Rule 11.2.E states the Request for Leave form is to be used to document authorized absences. Rule 11.15.A specifies the use of the Request for Leave form for all approved absences. Rule 11.15.B requires the use of the PAP forms for leaves lasting more than two (2) weeks.</p>	High		City Mgr SPD	<p>City Manager - The Human Resources Department monitors the leave requests that are required by the City's Rules and Regulations and notifies departments on outstanding leave approval slips. Only specific approvals are required to be received by Human Resources and retained in employees' files. A report is run that indicates that leaves requiring an attendance slip to be completed. This report is tracked by Human Resources as the leave slips are received. Supervisor and department head approval of time within the time and attendance system is not considered implied approval but rather explicit approval of all time worked for their unit or department. Time off requests can be, and are for most departments, an automated process within the Time and Attendance software. The approval process for this time off is electronic and signed copies would not be needed.</p> <p style="color: blue;">SPD - Any leave in excess of 72 hours, the employees must use personal time. If and when that is exhausted, a memo to the Chief of Police must be submitted requesting an extension. That memo is kept on file with Payroll and Personnel.</p>	
<p>3. Human Resources should review all negative leave balances and a consistent policy established as to how negative balances will be handled.</p> <p style="color: red;">Auditor's Comments – Despite Human Resources and department adjustments, negative leave balances are still noted in ABRA employee leave balances. Negative balances are a potential loss of funds to the City.</p>	Medium		City Mgr SPD	<p>City Manager - Human Resources reviews negative balances within ABRA's attendance module on a bi-weekly basis. Departments are notified verbally or via email to address the issues. Generally a request will be made to rectify the negative balance by using another leave balance that is available and not in the negative, i.e. bonus time instead of vacation time. Negative balances can then be eliminated from the employee's attendance file.</p> <p style="color: blue;">SPD - A report is run after payroll is complete on any negative employee balances. All sick leave over 9 days approved by the Chief of Police will stay in Abra and show a negative balance until it turns over on the employees anniversary date; at which time it will zero out.</p>	

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Audit Recommendation	Priority	Concur	Do not concur	Proposed Management Action Management Response (black text) SPD Response (blue text)	Action Item Due Date
4. Each Department should review their overtime use and evaluate alternative options where possible.	Medium	City Mgr	SPD	City Manager - During the budget process each year all Departments review their staffing requirements and analyze their overtime requirements to determine how to best minimize the need for overtime. The analysis includes cost comparisons to determine if additional full time equivalents are necessary or whether paying the current staff overtime is the most cost effective. However, contract with bargaining units have minimum manning stipulations that require the payment of overtime under certain conditions. SPD - Payroll runs a report after payroll is complete and distributes to the Chief of Police, Deputy Chief, Captains and Support Services Manager. All discretionary overtime must be approved by supervisors if employee hours cannot be adjusted. Patrol Division currently has overtime issues due to PBA contract.	City Manager Annually

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<p>5. We recommend a process be developed to allow Charter Officials (and Department Heads) to review leave balances on a quarterly basis and document their approval of the current leave balances.</p> <p>Auditor's Comments - This recommendation is not limited to the accumulation of vacation hours. Auditors noted significant accumulations of hours in other categories such as Run/Walk/Swim, Holiday and Bonus Days.</p>	Medium	City Mgr		<p>City Manager - The Human Resources department can provide vacation balances to Charter Officials and Department Heads on a quarterly basis for review. Extension for vacation and expiration of attendance time must be uniformly applied across all departments and Charter Officials. Management recommends that all employees are subject to the same standards and requirements per the current rules regardless of department or division. Management recommends allowing a grace period for the employees out of compliance to use this time or it will expire within a set time period.</p> <p>City Auditor and Clerk – We concur that a process should be developed to allow Charter Officials the opportunity to review leave balances on a quarterly basis and acknowledge current leave balances of employees. It is suggested that Human Resources provide a report indicating current leave balances and expiration dates. The Office of the City Auditor and Clerk is in compliance with the current regulations regarding accumulated time including Compensatory Time. The Exempt Staff supporting the City Commission for Commission meetings in the Office of the City Auditor and Clerk is very small and backup for the Staff working at Commission meetings is not possible. For that reason, certain Staff accumulate a large number of hours in the form of Compensatory Time. In the past, management approved for exempt Staff to carryover the time if taking the time off was not possible which is the reason large back balances have been accumulated. Several avenues may be possible to reduce the large accumulated balances. Every effort should be made to reduce large accumulated approved balances but it is just not possible to reduce all back balances without a major negative impact on some employees. Some suggestions include: offer employees the opportunity to “buy back” a week of time, for example (this has been done previously); allow “flex time” so more hours are not accumulated by the same small Staff; pay down the larger back balances over a certain amount over an extended period; have employees take earned time by a certain dates or pay down smaller back balances. Management will make every effort to assure staff is encouraged to take necessary earned leave as requested and when possible.</p>	<p>City Manager 3/31/15</p> <p>CAC Ongoing</p>

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Audit Recommendation	Priority	Concur	Do not concur	Proposed Management Action Management Response (black text) SPD Response (blue text)	Action Item Due Date
<p>6. We recommend each department compare their documented leave balances against the Abra system balances and resolve any discrepancies.</p> <p style="color: red;">Auditor Comments - We noted in our testing that an employee's accrued Bonus time was adjusted based upon Department documentation.</p> <p style="color: red;">In reviewing the transaction we noted that Bonus, Run/Walk/Swim and Personal time had previously been accrued to Holiday time. We noted similar accruals for other employees in the same department. The adjustment did not impact any other accrued time, particularly the Bonus hours accrued in Holiday time.</p> <p style="color: red;">There was not always documentation to explain changes made to individual employee leave balances. We noted multiple instances in our testing and reviews where balances were adjusted in various categories of leave with no explanation or in some cases, a limited explanation. These transactions raise questions regarding the adequacy of controls in place over adjustments to accruals.</p>	Medium	SPD	City Mgr	<p>City Manager - The HRIS system (ABRA) has an attendance module that is used throughout the City for accrual and tracking of attendance time for all employees. Each department does not establish their own procedures for tracking attendance time; ABRA has an attendance module that is used for citywide attendance plan monitoring. The Police Department's sworn officers are the only unit that does not accrue vacation time within the HRIS system. An element of their vacation process is governed by the collective bargaining agreement and is in discussion currently. Again this is an efficiency process that we are currently discussing during the negotiation process.</p> <p style="color: blue;">SPD - will work out a process with HR to correct discrepancies. Suggested solution is run a quarterly report to be sent to HR to balance against Abra. Any discrepancies can be researched by SPD Payroll prior to the balance being corrected.</p>	SPD 6/1/2015

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<p>7. Staff from the Payroll Division offer to consult with the departments using a manual process to increase the use of the City's time and attendance software and reduce the current duplication of efforts.</p> <p style="color: red;">Auditor's Comments - We noted that all departments are using the time and attendance software. We also noted that some departments are still using manual processes to accumulate time worked before posting the time to the time and attendance software resulting in reduced efficiency and additional steps with the potential for errors.</p>	Medium			<p>City Manager - The Payroll Division is always willing to provide assistance to departments to become more efficient utilizing existing resources. As modifications are made to collective bargaining agreements, it is expected that automation of additional functions will become more practical.</p>	<p style="text-align: center;">City Manager 2016</p>

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<p>8. Regulations 8.6 (A) and 8.8 should be reviewed for possible modification to reflect actual processes currently in place or that the Regulations currently in place be enforced as written.</p>	Medium	City Mgr SPD		<p>City Manager - Management would recommend a review and update of the Overtime approval and authorization rule to reflect the current practice that is necessary for the departments to manage effectively.</p> <p style="color: blue;">SPD - We do not have scheduled overtime, so Rule 8.6 A would not apply. However, we do have emergency overtime issues with non-exempt employees. They have their overtime authorized in writing by their immediate supervisor and the Division Captain's signature as well. Written reason for emergency overtime will now be included on the OT slip. Written communication to HR was sent via email suggestion Rules & Regulation 8.6A and 8.8 be amended to reflect actual practice.</p>	<p style="text-align: center;">City Manager 2016</p> <p style="text-align: center;">SPD 6/1/2015</p>
<p>9. Human Resources should review existing procedures to ensure all newly hired employees are screened for proper documentation.</p> <p style="color: red;">Auditor Comments – A job offer is made contingent upon the production of adequate personal documentation by the applicant. Hiring an employee like the example without proper I-9 documentation could result in fines from \$375 to \$14,050 for knowingly hiring and a fine of \$110 to \$1,100 for technical violations as per ICE Form I-9 Inspection-Overview http://www.ice.gov/factsheets/i9-inspection.</p> <p style="color: red;">Management indicated they did not concur with the recommendation, but Human Resources implemented a new procedure for future exceptions. Internal Audit will follow up on this finding to determine if the new process is adequate or if further action is required.</p>	Medium		City Mgr	<p>City Manager - The 19 forms and process is governed by Department of Homeland Security and it is against the law to request identification documents prior to an offer of employment. Human Resource staff discussed the issue with the City Attorney and any future incidents that are unclear will be reviewed immediately by the City Attorney. No further action needed.</p>	

APPENDIX A

AUDIT RATING SYSTEM

The audit ratings listed below are based on the auditor's assessment of whether the audit objectives were met.

Red – A red control rating denotes significant business risk or exposure to the City that requires immediate attention and remediation efforts. The controls reviewed do not appear to provide reasonable assurance that the control objectives are being met. The City is being exposed to a high level of business risk and exposure. Management is advised to immediately review the design and effectiveness of existing controls or consider implementing new or additional controls.

Yellow – A yellow control rating denotes opportunities for improvement exist relating to the controls reviewed. If this state of control is not improved, it could lead to higher than acceptable level of business risk or exposure to the City. The controls reviewed provide some, but not sufficient, assurance that control objectives are being met. Management is advised to review the design and effectiveness of existing controls or consider implementing new or additional controls on a priority basis.

Green – A green control rating indicated that the controls reviewed at the time of the audit indicated a satisfactory or acceptable state of control, where risk appears to be minimized and appropriately managed. Controls reviewed appear to provide a high degree of assurance that control objectives are being met. To maintain this rating management is advised to continue to assess the control systems and monitor existing controls for efficiency and effectiveness as business and organizational changes occur.