Office of Internal Audit

Performance Audit 14-02:
Time Clock Procedures

December 2014

City Auditor
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December 17, 2014

To: Mayor Andy Berke
        City Council Members

Subject: Time Clock Procedures (Report #14-02)

Dear Mayor Berke and City Council Members:

The attached report contains the results of our audit of Time Clock procedures. Our audit found the Time Clock Plus system has provided some efficiency to the departments who have implemented it. However, we found payroll clerks have the ability to adjust employee's pay records including their own records without approval or detection. In addition, we found supervisors are not reviewing and approving their employee's weekly time records.

In order to address the noted areas for improvement, we recommended actions to strengthen both the payroll system and process controls. These recommendations include but are not limited to prohibiting payroll clerk's access to their own records, developing automatic exception reports, requiring supervisors to approve their employee's time records, maintaining support documentation for all adjustments, and ensuring payroll records are maintained.

We thank the management and staff of the Finance Department's Payroll Division and the Information Technology Department for their cooperation and assistance during this audit. We would like to thank all the City's payroll clerks who participated in the survey and provided information during the audit.

Sincerely,

Stan Sewell, CPA, CGFM, CFE
City Auditor

Attachment

cc: Travis McDonough, Chief of Staff
            Brent Goldberg, Chief Operating Office
            Daisy Madison, Chief Financial Officer
            Audit Committee Members

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AUDIT PURPOSE

This audit was conducted in accordance with the Office of Internal Audit's 2014 Audit Agenda. The objectives of this audit were to determine if:

- The Time Clock Plus system is being utilized to maximize efficiencies and internal controls throughout the City; and,

- There are adequate policies and procedures to ensure an accurate payroll process.

BACKGROUND

The Finance Department's Payroll Division develops and issues citywide payroll policies and procedures. Each department has a minimum of one payroll clerk responsible for processing its payroll. The City has approximately 25 payroll clerks who process pay records for close to 2,700 employees totaling around $100 million dollars per year. These payroll clerks report to a supervisor within their own department and not to the Payroll Division. Although the payroll process is decentralized, the Payroll Division performs a final citywide review prior to printing and distributing payroll checks. It is the responsibility of the Payroll Division to ensure employees are paid correctly and proper procedures are followed.

The City has transitioned from manual time sheets to an automated time clock system for all departments with the exception of Fire, Police, and the Library. The new timekeeping system is used to record hours worked and leave taken for non-exempt employees. The Time Clock Plus system allows employees to easily access the system by using a kiosk or computer to clock in and out each day. When fully implemented, the system will simplify the payroll process and reduce manual data entry.

Financial Information

Exhibit 1: Total Salaries and Wages[1]

Department	FY12	FY13	FY14
General Gov & Agencies	10,702,698	10,582,036	10,684,830
Executive Branch	887,193	1,085,942	954,301
Finance & Administration	2,385,431	2,401,867	2,603,661
General Services	3,807,394	3,952,507	5,048,800
Human Resources	1,021,045	1,202,621	1,068,778
Human Services	5,059,864	5,104,323	0
Neighborhood Services	1,380,824	1,448,832	0
Police	24,042,550	24,663,538	24,908,216
Fire	19,282,827	19,429,427	19,376,018
Public Works	21,062,887	22,106,617	20,214,317
Parks & Recreation	7,258,267	7,461,955	0
Education, Arts, & Culture	1,050,515	1,150,390	0
Economic & Community Dev.	0	0	3,313,825
Youth & Family Dev.	0	0	9,523,506
Transportation	0	0	2,095,167
Total Salaries and Wages	$ 97,941,494	$ 100,590,056	$ 99,791,419

Source: Oracle Financial System

FINDINGS AND RECOMMENDATIONS

To ensure payroll records are accurate improvements are needed.

The City's payroll process is supported by two separate systems, the Time Clock system and Oracle Payroll system. The Time Clock system provides real time data of employee's attendance to management. It captures the employees work hours and generates time sheet records. This data is transferred to the Oracle payroll system where the hours are combined with pay rates and finalized.

Each City department that has implemented the automated system has been given the liberty to choose who approves and edits employee's time in the system. These individuals are designated as the Time Clock Editor in the system. The editors have the responsibility of ensuring the employee's hours in the Time Clock system are accurate. In some departments, the Time Clock Editor may not be the employee's direct supervisor who observes the employee's daily

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[1] Total salaries and wages include regular pay, overtime, personal leave, longevity, and severance pay. Departments showing $0 are due to a reorganization that occurred for FY14.

routine; the editor could be a payroll clerk who is located in a separate location from other employees in the department.

We found several areas in the process needing improvement including appropriate records retention, proper support documentation, adequate supervisor approval, accuracy of time records, and segregation of duties.

Manual records should be maintained when employees are unable to access the automated system.

The basis of any employee's pay is their daily time record. The Internal Control and Compliance Manual for Tennessee Municipalities requires time cards be maintained for all employees in order to eliminate unauthorized pay and repeated tardiness. When the electronic system is not available, a manual time sheet is required to document the employee's hours worked. The time sheet should be signed by both the employee and their supervisor authenticating the hours worked and retained to support the wages paid.

During the audit, we found manual records were not always maintained when the automated system was not available. In these instances, the Time Clock Editor would manually enter the employees' hours in the automated system. Support documentation was not retained to substantiate these hours. Time Clock Editors interviewed were unaware of the requirement to have manual records in these instances. In addition, the payroll policies and procedures do not address this deviation from the automated system.

Recommendation 1:

We recommend the Finance Department, via formal written policy, require manual time sheets be used when the Time Clock system is not available. The time sheet should be signed by the employee and supervisor, and retained with the pay records.

Auditee Response:

We concur. Payroll procedures have been revised to incorporate this change.

Adjustments should have appropriate support documentation and supervisor approval

One main requirement[2] in a payroll process is to maintain accurate records of any deletions or additions to an employee's wages since an adjustment alters the employee's time record. Adjustments are necessary when dealing with high volumes of pay records and unique work schedules of some city departments. However, the current policies and procedures do not require written support for Time Clock adjustments.

We reviewed a sample of edit records from the Time Clock system and requested supporting documentation from the Time Clock Editors. We found little or no support for the time adjustments. In addition, we found instances where the supervisor didn't review or approve the adjustments.

In accordance with the *Internal Control and Compliance Manual for TN Municipalities,* when the Time Clock Editor is not the direct supervisor, the adjustment must be authorized by the employee's supervisor. This authorization document should be retained with the final payroll records.

Recommendation 2:

We recommend the Finance Department, via formal written policy, require adjustments made to an employee's pay record be substantiated, documented and retained.

Auditee Response:

We concur. Payroll procedures have been revised to incorporate this change.

Recommendation 3:

We recommend the Finance Department require, via formal written policy, a direct supervisor review and authorize an employee's time record prior to it being processed. This signed document should be retained with the pay records.

Auditee Response:

We concur. Payroll procedures have been revised to incorporate this change.

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[2] The Fair Labor Standards Act (FLSA) requires an employer to maintain accurate records of any additions or deletions to an employee's wages.

The final payroll review should include a comparison of Oracle hours to Time Clock hours.

Once the Time Clock records are transferred to the Oracle payroll system, the clerks perform a final review and make necessary adjustments to hours worked and/or leave. Since additional adjustments are made in Oracle, the hours paid do not always reconcile to the hours recorded in Time Clock. Currently, adjustments made in Oracle are not consistently reported to the Payroll Division. Finance's *Time Clock Procedures and Responsibilities* manual requires all Time Clock records match the employee's final pay.

To verify the City's payroll records were accurate, we compared Time Clock hours to Oracle paid hours from a sample of non-exempt employees in addition to all payroll clerks. The review found differences between the Time Clock hours and Oracle hours. The differences were due to adjustments made to the final paid hours in the Oracle system. Although the payroll clerks provided explanation for the adjustments, support documentation was not always maintained.

Recommendation 4:

We recommend the Finance Department collaborate with the IT Department to develop computer matches which would generate automatic exception reports. We also recommend the Payroll Division, via formal written policy, require a review of the exception reports prior to processing the payroll. The review should ensure the exceptions are properly documented.

Auditee Response:

We concur. We are in the process of drafting a request which will follow the IT protocol for enhancements.

Recommendation 5:

Until the exception reports are available, we recommend the Payroll Division require Department payroll clerks to compare Time Clock hours to Oracle hours to verify the hours match. Any exceptions should be investigated prior to processing the final Payroll Time Detail Report (PRTD). Any exceptions should be supported with written documentation and accompany the final PRTD. We recommend the Payroll Division retain the written exceptions provided along with the final PRTD.

Auditee Response:

Until the exception report (recommendation 4) is complete, payroll written procedures have been strengthened whereby the Department

Payroll Clerks will verify the time clock hours and the final PRTD hours match or provide adequate documentation of exceptions to the Payroll Division and retain a copy in the payclerk files.

Segregation of Duties

Internal Control and Compliance Manual for TN Municipalities requires officials to separate duties so that no one employee has control over a complete transaction from beginning to end. When using automated payroll systems, the access controls should be integrated to ensure proper segregation of duties.

As stated above, the City's payroll process utilizes two systems, Time Clock and Oracle. The Time Clock system can restrict individual user access and generate detail adjustment reports by user name. However, at this time, the Oracle system does not have these capabilities. In particular, we noted some payroll clerks are not restricted from adjusting their hours in the Time Clock system and **all** payroll clerks can adjust their hours in the Oracle system. This internal control deficiency, coupled with the lack of exception reports, provides an opportunity for payroll clerks to make undetected adjustments.

Recommendation 6:

We recommend the Finance Department ensure payroll clerks and Time Clock Editors are blocked from editing their own time records in the Time Clock. Further, we recommend the Finance Department work with the IT Department to determine a solution for Oracle users not to have the ability to edit their own records in the system.

Auditee Response:

We concur. We will request assistance from the IT Department to implement this recommendation. Until IT has a solution to block Oracle users from editing their own time, payroll procedures have been strengthened to specifically prohibit this conflict of interest by employees.

Updated policies and procedures are needed.

The Payroll Division establishes the payroll procedures for all City departments to follow based upon Federal, State and City guidelines. Finance has issued several payroll procedural manuals. However, information in some manuals overlap and key procedures are missing.

The Payroll Division is responsible for providing training to payroll clerks for both systems. Based upon discussions with City payroll clerks, formal training has not been provided to all payroll clerks and manuals were not received by all clerks.

Recommendation 7:

We recommend the Finance Department update their Time Clock procedures manual, consolidating information from all related policies and procedures, to be comprehensive. The manual should include, but not be limited to, requirements for time adjustments documentation, supervisor approval of employee's time records, exception reports review, record retention guidelines, etc.

Auditee Response:

We concur. The manual has been updated and posted to the intranet.

Recommendation 8:

We recommend the Finance Department ensure all official procedures and user manuals are issued to appropriate staff and posted to the City's Intranet. We also recommend the Finance Department continue to document the receipt of procedures manuals and training when provided to payroll clerks.

Auditee Response:

We concur. We will continue to train all new payroll clerks and obtain signed documentation or receipt of training from employees upon completion. A formal training session will be conducted in the near future for all existing payroll clerks as well. Signed receipts of attendance will be obtained and maintained on file in the Payroll Division. We provide the manual when we bring them in for training and have them sign a hard copy that they have received training and the manual. If they decline we will accept an email.

Recommendation 9:

We recommend the Finance Department provide formal training to new payroll clerks and Time Clock Editors prior to activation in the systems.

Auditee Response:

We concur. This will be included in the revised manual.

The City should fully utilize the Time Clock Plus system.

Over the last five years, the City has transitioned the majority of its non-exempt work force to an automated time clock system with the exception of the Fire and Police Departments and the Library. The Time Clock Plus system tracks an employee's time worked and leave time. It has the capability of assigning job codes, setting work schedules and producing detailed reports for users.

The Fire and Police Departments have not implemented the system for their civilian or sworn employees. Sworn Fire and Police employees are on a 27 and 28 day work rotation, respectively, which will not integrate with the current Time Clock module. There are modules available with the Time Clock system which would accommodate these schedules but they would have to be purchased separately and implemented.

The Police Department is aware of the immediate need to implement the Time Clock system for their 95 civilian employees. Office of Internal Audit issued a memo in June 2014 regarding issues found with their payroll process. The Police Department has a pending request to the IT Department to implement the system for civilian employees.

The Library is moving forward with implementing the Time Clock system and will have their 60 non-exempt employees using the system within six months. The Fire Department has 14 non-exempt civilians who could use the system. Currently, the Fire Department has no immediate plans to implement the time clock system.

Recommendation 10:

We recommend the Finance Department implement the Time Clock Plus system to the fullest extent possible by working with IT and city departments to determine the specific needs of departments not utilizing the system. This includes purchasing and installing modules for sworn employees. We recommend the Finance Department help expedite the implementation of the Time Clock system for Police Department civilian employees.

At a minimum, the Finance Department should, via a formal written policy, require all City employees not on the Time Clock system to submit either a digital or manual time sheet which represents the actual hours worked by the employee. The time sheets should be reviewed and signed (manually or digitally) by the employee's direct supervisor authorizing payment of the hours.

Auditee Response:

We concur. We are currently assisting with the implementation of the Time Clock system at the Library and for the Police Department's civilian employees. It is our goal to implement the Time Clock system citywide including sworn personnel; the progress is dependent upon the availability of the IT Department staff.

The revised manual is requiring submission of manual time sheets with employee and supervisor signature when the Time Clock system is not being utilized.

APPENDIX A: SCOPE, METHODOLOGY AND STANDARDS

Based on the work performed during the preliminary survey and the assessment of risk, the audit covers the Time Clock Plus process from May 1, 2013 to April 30, 2014. When appropriate, the scope was expanded to meet the audit objectives. Source documentation was obtained from the Finance Department's Payroll Division, citywide payroll clerks, the Time Clock Plus and Oracle systems. Original records as well as copies were used as evidence and verified through physical examination.

To meet audit objectives, we researched laws, rules, regulations, and department policies related to payroll process controls. We interviewed Finance Payroll Division and Information Technology staff, along with department payroll clerks. We surveyed the City's payroll clerks to understand their process and gather information specific to their department. We analyzed Oracle pay records and Time Clock data to verify the employee's hours were accurate. We analyzed Time Clock adjustments to understand why adjustments were being made and if documentation was retained as support.

The sample size and selection were statistically generated using a desired confidence level of 90 percent, expected error rate of 5 percent, and a desired precision of 5 percent. Statistical sampling was used in order to infer the conclusions of test work performed on a sample to the population from which it was drawn and to obtain estimates of sampling error involved. When appropriate, judgmental sampling was used to improve the overall efficiency of the audit.

To achieve the audit's objectives, reliance was placed on computer-processed data contained in the Time Clock Plus and Oracle systems. We assessed the reliability of the data contained in the two systems and conducted sufficient tests of the data. Based on these assessments and tests, we concluded the data was sufficiently reliable to be used in meeting the audit's objectives.

We conducted this performance audit from April 2014 to November 20, 2014 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.