Office of the City Auditor

TO: Honorable Mayor and
               Members of the City Council

FROM: Ann-Marie Hogan, City Auditor

Subject: City-wide Payroll Audit

RECOMMENDATION:

That Council request the City Manager to report to Council by January 31, 2000, regarding implementation of the recommendations in the attached report.

BACKGROUND:

The General Audit Division of the City Auditor's Office reviewed payroll processing operations in City departments. A number of common problems were noted across all departments. These are discussed in the Executive Summary to the report. Detailed findings and recommendations by department are discussed in the body of the report.

Some payroll processing changes recommended require consultation between some departments, the Payroll Audit Division of the City Auditor's Office, and the Information Systems Office. The General Audit Division will coordinate these consultations and report the results to the City Auditor by October 31, 1999, to be forwarded to the City Manager for report to Council.
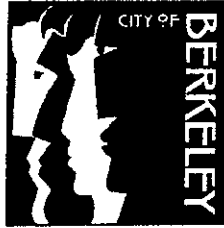
FINANCIAL IMPLICATIONS:

There are potential savings to the City through improved productivity, if the City Auditor's recommendations are implemented.

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City of Berkeley

Citywide Payroll Audit
April, 1999

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PAYROLL AUDIT
EXECUTIVE SUMMARY

The General Audit Division conducted a citywide audit of payroll processing operations. We found a decided need for improvement in management and clerical practices. We also found information systems problems, and important labor relations issues which directly impact the integrity of the City's accounting data. Significant issues include:

1. **Payroll Codes**:

   The COB currently uses an excessive number (361) of payroll transaction input codes to record labor activity in the Payroll System. The largest number (133) of these codes are used to characterize direct labor hours in city departments. The remainder deal with payroll adjustments (103) or benefits, including elected deductions (125). Departmental supervisors and Payroll Clerks are required to work with these codes and match them with the applicable MOUs when approving and entering time to be paid to city employees. The system is extremely complicated, and there is a very high risk of error. A high priority should be given to reducing the number of codes that the Departmental Payroll Clerks use. In order to accomplish this, the terms of the MOUs should be as uniform as possible. The City Manager should give high priority to making Memoranda of Understanding language uniform as contracts come open for renegotiation.

2. **Nepotism**:

   We found that near relatives were working together in the same work unit in one department. We strongly recommend that near relatives not work together in the same division or work unit. We even more strongly recommend that one near relative not supervise another near relative.

3. **Breach of Payroll System Security**:

   In the same department (2. above), we found a number of people were using the Payroll Clerk's system identification. These people were not authorized to enter data into the Payroll System. This was a serious compromise of Payroll System security.

4. Payroll Time Entry Errors:

There were significant time entry errors. This indicated a lack of careful review of timecards by supervisors before submission to Departmental Payroll Clerks.

5. Labor Distribution Reports:

Labor cost distribution reports showed a particularly high rate of input and output error.

6. Additional Pay:

Additional pay authorizations were not timely reviewed in one department. In one case a worker had, five years earlier, been authorized premium pay for special assignment work. The worker had not actually been assigned to this work for five years. Our review showed that the worker had been overpaid for five years. We believe front line supervisors should review additional pay authorizations for their workers at least annually, and take corrective action promptly when needed.

7. Working From Home:

Two Departmental Payroll Clerks informed us that they frequently did time card data entry from home, dialing into the Payroll System using their personal computers. The practice appeared to us to raise security and overtime issues, as well as a question of City policy on telecommuting.

8. Hand Posted Records:

Departments were maintaining hand posted staff time and leave records. This duplicated information available from the Payroll System. We believe that these system reports are reliable and should be used in place of the manual systems. A significant amount of clerical time would be freed, and could be applied to improving the accuracy of payroll system inputs.

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9. Supervisor Certifications of Time Worked:

Signature stamps were used by Police Department and Library supervisors to approve time cards. A supervisor's signature on the time card certifies that the supervisor knows that the employee is entitled to be paid for the time reported. While this is often treated as a matter of form, it is a certification that the supervisor has personal knowledge that the employee is entitled to payment for the time reported. Only personal signatures should be entered on time cards by supervisors.

10. Supervisor Approval of Time Card Changes:

Changes to time cards were not signed off by supervisors. There appeared to be no system in place to assure supervisors that requested changes were made as intended.

11. Quality Control System:

There appears to be no formal mechanism in place for reporting errors made by employees, supervisors, and payroll clerks during the payroll recording process. We recommend that Payroll Audit institute quality control reporting.

These are the principal findings in the report. The first two, in particular, require action by the City Manager. Payroll processing in the City can be improved through implementation of the quality controls we recommend.

Office of the City Auditor
City Wide Payroll Audit
April, 1999

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I. Introduction

A. Purpose and Objectives of the Audit

Payroll and related benefits are the largest expenses of the City of Berkeley. The payroll system which is used to generate payment and to provide cost information for management control over these expenses requires labor intensive inputs and the quality of management information produced has been strongly criticized. The purpose of the audit was to evaluate the quality of information produced by the system, and to examine the effectiveness of the input process.

B. Scope of the Audit

The audit consisted of an extensive survey of payroll processing practices in the operating departments and in the Payroll Audit Division of the City Auditor's Office. On completion of the survey, a number of payroll system and processing attributes were selected for detailed review. A random sample of 138 employees was selected from the 1,809 named individuals appearing on the January 24, 1998 Payroll Register. The selection pattern generally followed the staffing ratios of the departments to the total number of City employees. The sampling approach involved a random start and the selection of every 13th employee thereafter. The Payroll Register used for the selection is ordered in departmental sequence. Any bias which may have resulted from use of this database was unintentional. We were concerned that sampled cases were representative. We did not intend to, nor did we, perform a statistical projection of attribute test results. Our findings are indicative of the control weaknesses and issues we present and discuss. The pay period ended January 24, 1998 was selected as the test period. Attributes tested relate only to this pay period. Subsequent changes to payroll processing practices, if any, are not reflected in this report. Audit work was performed in accordance with Government Auditing Standards prescribed by the Comptroller General of the United States, except for the following impairment of

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independence. Independence was impaired because both General Audit and Payroll Audit Divisions report to the City Auditor. Care was taken to maintain independence in the work to the extent possible given the impairment. We do not believe the impairment had a negative impact on the audit.

C. Background

The 1,800 people (1,540 FTE) who work for the City are paid every two weeks. Every other week all employees submit time cards reporting the hours worked during that pay period. The time card is the basic accountability document for payroll. Time cards are signed by the employee and his or her supervisor to certify entitlement to payment for the hours shown. Each worker reports hours worked by labor code. At the time of the audit, 361 labor codes were in use. These codes are the foundation for management information on employee activity. In addition to the 133 codes for reporting "hours type" direct labor hours, there are also 61 "add pay" codes to detail such items as shift differentials, and special allowances; 55 codes to report various benefit items; 70 codes to record such deductions from pay as union dues, loan payments, and garnishments; and 42 codes to record adjustments to pay before tax deductions are calculated, such as deferred compensation plan savings, and dependent care. Employee assignments are reflected in departmental account numbers, listed on time cards, which the system automatically produces each time the payroll is run. Many employees work on a number of projects during a pay period. Project codes can be assigned to accumulate costs by project. Project numbers are controlled and assigned by the Budget Office.

Departments obtain project numbers on request, and set up accounts accordingly. Employees are told by departmental managers which project codes to enter for time worked on a project. Time cards are turned in to departmental Payroll Clerks who review them for accuracy and compliance with departmental and City policy. For example, if additional payment is requested for overtime, the departmental Payroll

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Clerk verifies that an approved overtime report supporting the time card entry has been submitted. Similarly, if an absence is reported, the Payroll Clerk verifies that the absence has been approved by the employee's supervisor. Once the departmental Payroll Clerk has reviewed the time cards, he or she enters the data into the Payroll Module of the City's FUND$ financial system. Activity is posted for each day in the pay period. Many employees require multiple entries for each day worked to accurately charge their effort to projects. This requires time and care on the part of the Payroll Clerk, although, if an employee works on the same projects in the same proportion every day, the system can be set to make this distribution from a single input for the day.

Because the Payroll Module was designed to operate in a centralized data processing environment, some validity tests and edit checks are not available to departmental Payroll Clerks. Further, some entries that Payroll Clerks make may appear to have been accepted by the system when they actually have not been. An edit report showing rejected entries is produced by the system after overnight updates are processed. This report was not being reviewed by departmental Payroll Clerks at the time of the audit. Another example of difficulty encountered when applying a centralized system in a decentralized environment is assuring that persons signing time cards as supervisors actually have the authority to do so. In some instances, departmental administrators did not know who actually supervised a particular employee.

The Payroll Module calculates payroll using information from data shown on Employee Transaction Forms (ETFs). The Personnel Department prepares these forms for new career and temporary hires, except for Library and HHS Recreation/Camps Program employees, and enters this data into the HTE Payroll System. The Library and the HHS Recreation/Camps Program prepare original ETFs for their new hires. The Personnel Department reviews change data transmitted on ETFs prepared by the operating departments for current employees. The Personnel Department also

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maintains the HTE Pay Table and the Position Authorization files, and makes mass updates of the HTE Payroll System for cost of living increases. The Office of Information Systems updates the HTE Payroll System from ETFs prepared by the operating departments and approved by the Personnel Department.

II. Findings, Discussion, and Recommendations

We have arranged the discussion below by number of FTE in the departments as listed in the 1997-98 adopted budget. There was a difference between the number of FTE listed in the adopted budget, and the number of names appearing in the January 24, 1998 Payroll Register. The explanation for this is that the Payroll Register lists all employees who reported hours during the pay period. This would include part time workers, and people on leave without pay. Because Fire Department Payroll Clerks also support the Police Department, these departments are considered first.

Chapter 1.   Fire Department Payroll Processing (FD)

There are 139 FTE employed in the Fire Department. We drew a sample of 10 people from this department.

FD1.   Signatures on Time Cards

Fire Department employees and supervisors do not sign time cards.

Discussion

A long standing arrangement between the Fire Department and the Payroll Audit Division of the City Auditor's Office provides that Fire Department staff and supervisors' signatures on a log attesting to the accuracy of their paychecks would be sufficient evidence that time paid was actually worked. This arrangement has stood for many years without review. The way in which the log is used has apparently changed over time, however. We reviewed a paycheck log dated January 30, 1998 for payroll checks issued for the pay period ended January 24, 1998. Not all employees signed the log to evidence receipt of their pay checks or to certify that the hours paid were hours worked or charged to earned leave. It appeared to us that supervisors did sign for their employees; however, the signature could as well indicate that the supervisors were picking up the checks to be handed out as to certify to the accuracy of the payments.

<u>Recommendations</u>

We recommend that the Payroll Manual state unambiguously the purpose of employee signatures on time cards. We further recommend that time cards prepared by Departmental Payroll Clerks be sent to shift supervisors after the cutoff. We recommend that employees certify the hours charged, and that supervisors sign the time cards as evidence of their agreement and approval to pay the employee as reported. Certified time cards should be sent to the Payroll Auditor for the Fire Department. We also recommend that use of the paycheck log be discontinued.

Fire Department Response

The department disagrees with the recommendations, and proposes an alternative approach to assuring that time card information is correct, and payment of payroll properly authorized. See Appendix 1 for the full text of the response.

Auditor Comment on the Fire Department Response

Our recommendation relates to an apparent break down in the long established control system. The essential control is that workers are paid as authorized by a supervisor knowledgeable of their actual work. Any system which accomplishes this as a matter of routine, and which is verifiable on a test basis, should be acceptable. Written departmental policy and procedure should be in place describing the payroll authorization process. We recommend that Fire Department management document the new system,discuss the feasibility of this approach with the Payroll Audit manager, and report on results by October 31, 1999.

FD2. <u>Personnel Department Concurrence in Higher Class Payment Authorization</u>

Temporary higher class pay was authorized by Deputy Fire Chief Gary Bard in a letter to the Audit Division dated July 3, 1997. In reviewing this authorization it was noted that the Personnel Department was not informed of the changes in pay rates.

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Discussion

These changes were temporary and paid only where an employee worked at a higher class as a replacement for the person normally holding the higher class position. Payment can be made at the higher class only if the higher rate is shown on the employee's time card. The higher class pay is paid as an override of the regular earnings rate. The Director of Personnel is the approval authority for all earnings rates.

Recommendations

We recommend that the Fire Department prepare ETFs for higher class pay authorizations which will last longer than 30 days, or prepare Blanket Transactions Forms to authorize higher class pay for periods of less than 30 days. We also recommend that all higher class pay authorizations be submitted to the Personnel Department for approval, and that approved authorizations be submitted to the Payroll Audit Division by the Personnel Department.

Fire Department Response

The department agrees with the recommendation. See Appendix 1 for the full text of the response.

FD3. Manual Attendance and Leave Records

Departmental Payroll Clerks prepare daily attendance records from weekly time sheets. These records duplicate reports available from the HTE payroll system. Attendance and leave data is also captured on a QuattroPro spreadsheet for all departmental employees.

Discussion

There is a good deal of pressure on Departmental Payroll Clerks to complete all payroll related system inputs timely. Maintenance of manual records takes time and may not be necessary if Payroll System reports are accurately maintained.

Recommendation

We recommend that Departmental Payroll Clerks verify that Payroll System reports provide the same information as manual records. If Payroll System reports

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are accurate, we recommend that manual records for individual employees be
discontinued.

Fire Department Response

The department response notes that manual records are frequently referred to by
supervisors. The department expressed some concern that the records might not be
available for this purpose if they were system based. See Appendix 1 for the full
text of the response.

Auditor Comment on the Fire Department Response

The intent of the recommendation was to promote the more efficient use of
Departmental Payroll Clerks time. If the system cannot provide information in a
form that supervisors can use to manage operations, "work around" solutions will
continue to be needed. We recommend that Fire Department management
participate in a working group with Payroll Audit and Information Systems staff to
determine whether the computerized system can be modified to meet user needs.
A report on the resolution of these issues should be provided to the City Auditor by
October 31, 1999.

Chapter 2.   Police Department Payroll Processing (PD)

There are 318 FTE employed in the Police Department. Our sample included 26 department employees. Significant issues identified during our review are discussed below.

PD1.   Signatures on Time Cards

Time cards are signed in blank by employees and supervisors. At the close of the pay period Departmental Payroll Clerks complete the time cards from weekly attendance logs obtained from supervisors. Time cards are then submitted to Payroll Audit.

Discussion

The effect of signing time cards in blank is to accomplish control form without substance. The signature of the employee on the time card certifies the employee's claim to be paid for time worked. The supervisor's signature attests to personal knowledge that the employee worked the hours certified. Shift muster records and logs support the time worked by members of the Police Department; however, the time card generates payroll payments. It is appropriate that this document contain specific certifications that payment is due for services rendered by staff. Since Departmental Payroll Clerks prepare the time cards from supporting documents, it would seem logical to submit the prepared time cards to supervisors and employees after they have been prepared for their signatures. This would give the employee and supervisor the opportunity to review the time card to assure they have been prepared correctly.

Recommendations

We recommend that time cards prepared by Departmental Payroll Clerks be signed by staff and supervisors after review. We also recommend that supporting documents be submitted to Payroll Clerks early enough so that time cards can be prepared within the time constraints imposed by the biweekly payday. This may require estimating time for more than one shift.

Police Department Response

The Department agrees with the authorization recommendation in concept, and offers an alternative approach to accomplish the controls discussed. The Department does not agree with the recommendation to extend the cut-off period by estimating work time. See Appendix 2 for the full text of the response.

Auditor's Position on the Police Department Response

Police Department management should discuss the feasibility of their recommendation with the Payroll Audit manager, and report back to the City Auditor by October 31, 1999.

PD2.   Time Card Changes Not Approved by Supervisors

In two cases time card changes were not initialed by supervisors. In one of these cases the entry was covered with correction fluid, and an entry was made over the correction fluid.

Discussion

Time cards are the original evidence that payment is due for time worked. Correction fluid should not be used to correct erroneous entries on time cards. The error should be crossed out and initialed by the person making the change. If room is available on the time card, it may be advisable to use a new line to make the correct entry.

Recommendations

We recommend that the Chief of Police inform all shift supervisors that time cards must be properly prepared as described in the Payroll Manual. We also recommend that Departmental Payroll Clerks be advised that correction fluid cannot be used on time cards.

Police Department Response

If the department's response to PD1 above is adopted, employees and supervisors will be signing final copies of the time cards, after any correction has been made. Payroll clerks have been advised not to use correction fluid on time cards. See Appendix 2 for the full text of the response.

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PD3.   Manual Attendance and Leave Records

Departmental Payroll Clerks prepare daily attendance records from weekly time sheets. These records duplicate reports available from the HTE payroll system.   Attendance and leave data is also captured on a QuattroPro spreadsheet for all departmental employees.

Discussion

There is a good deal of pressure on Departmental Payroll Clerks to complete all payroll related system inputs timely. Maintenance of manual records takes time and may not be necessary if Payroll System reports are accurately maintained.

Recommendation

We recommend that Departmental Payroll Clerks verify that Payroll System reports provide the same information as manual records. If Payroll System reports are accurate, we recommend that manual records for individual employees be discontinued.

Police Department Response

The Department notes that the manual records serve a number of management purposes in addition to tracking leave accruals and usage. The Department prefers not to discontinue use of these records. See Appendix 2 for the full text of the response.

Auditor's Position on the Police Department Response

Police Department management should discuss the feasibility of their recommendation with the Payroll Audit manager, and report back to the City Auditor by October 31, 1999.

PD4.   Block Stamp Approval Signature

One shift supervisor used a block stamp to sign time cards.

Discussion

The use of a block stamp raises concern about control of the stamp, and the validity of the signature. A block stamped signature is better than no signature. However, if, for example, the stamp is given to the Departmental Payroll Clerk to

use as they prepare time cards there is no meaning to the signature. As noted above, the supervisor's signature is a certification that the supervisor has personal knowledge that the time reported was worked.

Recommendation

We recommend that Departmental Payroll Clerks not accept block stamped signatures on time cards.

Police Department Response

The use of block stamps in place of signatures on time cards is not a routine practice. Supervisors will be advised to sign all time cards and payroll clerks will be advised not to accept stamped signatures.

PD5.   Timely Documentation of Overtime Worked

Police Department overtime is documented on "Extraordinary Duty Report" forms. In one sampled case the report form supporting overtime worked on January 20, 1998 was prepared and signed by the employee on September 11, 1998. This form was provided to the auditor as part of documentation requested to support departmental payroll for the pay period ended January 24, 1998.

Discussion

Supporting documentation indicates that the employee worked overtime during the test period. Completion of an "Extraordinary Duty" report eight months after the fact has limited use.

Recommendation

We recommend that overtime reports be prepared and approved timely.

Police Department Response

The Department notes that the finding relates to an isolated occurrence, but concurs that overtime reports should be timely. See Appendix 2 for the full text of the response.

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Chapter 3.   **Public Works Department Payroll Processing** (PW)

The Public Works Department (PW) has 298 FTE working in six divisions. We selected a sample of 23 employees from the six divisions.

PW1.   Time Card Preparation - Recording Errors

A number of time cards reviewed for employees in the Solid Waste Management Division, the Streets and Sanitation Division, the Engineering Division, and the Facilities Maintenance Division contained account codes and project numbers that did not agree with subsequent HTE Payroll System reports. We were told by department administrative management that work orders reflected incorrect accounting code, in at least some instances.

Discussion

Because much of the work of the department is supported from specific funding sources, the Public Works Department must account for effort accordingly. When account coding is not correct on original input, correcting entries are made after the fact. These require research and additional work on the part of the Departmental Payroll Clerk, which is non-productive. In some instances corrections may not be made because of time constraints. In those instances subsequent corrections may cause additional work for the budget analysts, and accountants in the Finance Department as well as the Departmental Payroll Clerk.

Recommendation

We recommend that frontline managers assure that accounting codes appearing on departmental forms are correct before the forms are forwarded to the Departmental Payroll Clerk for system entry.

Public Works Department Response

The department agrees with the recommendation, and suggests additional control steps. The full text of the Public Works Department response is attached at Appendix 3.

PW2. Overtime and Leave Not Supported by Supervisor's Signature

In several instances overtime worked and/or leave reported on time cards for these same divisions was not supported by request documentation approved by supervisors.

Discussion

Supervisor approval of overtime and leave is evidence that staffing is managed to accomplish the job.

Recommendation

We recommend that Supervisors and Departmental Payroll Clerks assure that overtime and leave request documents are submitted to support payroll transactions.

Public Works Department Response

The department agrees, and notes that this is current departmental practice. See Appendix 3 for the full text of the response.

PW3. Time Card Hours Do Not Support Hours Entered into the Payroll System from Work Orders

Time cards submitted by Public Works divisions to support hours entered into the system by Payroll Clerks do not always agree with hours actually entered.

Discussion

Payroll Audit indicated that discrepancies arise when time is entered into the HTE Payroll System from work order documents which were not reconciled with time cards.

Recommendation

We recommend that entries to the HTE Payroll System be made only from time cards which have been signed by employees, and approved by their supervisors, except when the employee is unavailable for explained reasons.

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Public Works Department Response

> The department disagrees with the recommendation, and notes that they currently have a pilot project in place to determine if scan technology can be used to accomplish the control addressed by the recommendation. See Appendix 3 for the full text of the response.

PW4. Additional Pay Authorizations Not Reviewed Timely

In one sampled case, a worker was authorized premium pay for sewer work, in 1995. The worker was subsequently assigned non-sewer work, but the additional pay authorization was not withdrawn. The worker was eventually overpaid more than $5,000. The department and the worker are negotiating a repayment plan.

Recommendations

> We recommend that additional pay authorizations be reviewed and approved by supervisors at least annually. We also recommend that the Departmental Payroll Clerks maintain a history file for these transactions.

Public Works Department Response

> The department agrees with the recommendation, and describes the corrective action taken with regard to the system problem discussed. See Appendix 3 for the full text of the response.

PW5. Prior Period Payroll Adjustments Not Reviewed and Approved by Supervisors

Payroll adjustments entered on time cards to correct prior period entries were not approved by supervisors.

Discussion

> Prior period adjustments were originated by Departmental Payroll Clerks to make corrections where the original input was in error. For a number of months,

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including the test period, Public Works Departmental Payroll Clerks were short staffed. Departmental Payroll Clerks were borrowed from other departments to enter time so that pay days would not be disrupted. Priority was given to processing payroll.   Adjustments were not processed timely and were not always routed to supervisors for approval.

Recommendation

We recommend that all payroll adjustments be reviewed by frontline supervisors before they are entered into the HTE Payroll System.

Public Works Department Response

The department agrees with the recommendation, and describes the corrective action taken. See Appendix 3 for the full text of the response.

PW6. Public Works Department Payroll Clerk Function Staffing

Payroll Clerk staff reductions have had a negative impact on the workload of the Payroll Auditor, and resulted in a weakened system of internal controls over Public Works Department payroll processing.

Discussion

Public Works Department Payroll Clerk staffing has been reduced due to disability leaves and transfers. This resulted in submission of incomplete payroll adjustment documents to the Payroll Audit Division. Recognizing the workload impact in the Department, the Payroll Auditor assigned to process Public Works payroll has been completing these adjustments and entering them into the system. A control weakness results when payroll transactions are not properly monitored.

Recommendation

We recommend that Public Works management review the departmental timekeeping and payroll accounting function, and consider whether a more effective approach to processing adjustments can be implemented.

Public Works Department Response

The department agreed with the recommendation, and describes a departmental reorganization that addressed the issue. See Appendix 3 for the full text of the response.

PW7. Time Card Changes Not Always Initialed by Employees or Supervisors

Changes shown on time cards prepared for the Streets and Sanitation, Administration, Engineering, and Facilities Maintenance Divisions were not always initialed by reporting employees and supervisors.

Discussion

Original time cards are the employees certification that reported time was worked. The supervisor's signature is independent certification that a knowledgeable third party agrees that the time was worked and payment is due.

Recommendation

We recommend that all alterations to time cards clearly show their purpose, and be initialed by the employee and the supervisor.

Public Works Department Response

The department agreed with the recommendation. See Appendix 3 for the full text of the response.

PW8. Time Card Changes Using Correction Fluid

Entries to some time cards were changed using correction fluid.

Discussion

Changes made with correction fluid masks the original entry. This type of change could indicate a fraudulent alteration. Standard procedure for correcting entry mistakes on time cards was apparently not well understood by Payroll Clerks

Recommendation

Time cards should not be altered using correction fluid. Any entry to a time card by a Departmental Payroll Clerk should also be initialed and explained.

Public Works Department Response

Department agreed, and noted that current practice is consistent with the recommendation. See Appendix 3 for the full text of the response.

PW9. Labor Distribution Errors

There were 10 labor distribution errors in the sample of 23 Public Works Department employees reviewed.

Discussion

A labor distribution error means, in general, that the wrong account or project code was charged. The table below describes errors noted during the audit, in detail.

Error	Cause
Incorrect account charged for sick leave	Key entry error since the default account number was charged for four of five sick days, and the employee regularly works at the location associated with the default account number.
Hours Proof Listing did not show all hours by the Project No. reported by the employee. Total hours were correct for the period but the account distribution was incorrect.	A Project No. was not shown in the job code column of the time sheet although it was shown in the labor description block. The Payroll Clerk entered cumulative hours associated with the closest available Project No. in the job code column of the time sheet.
Hours Proof Listing shows Project Nos. not reported on employee time sheets. Labor was charged to the wrong project within the correct account (2 cases).	Data entry error by the Payroll Clerk. Both the Project No. entered into the HTE Payroll System and the Project No. shown on the time sheet were valid, but were different.
Project No. and Account No. reported by employee on time sheet were not set up in system. Hours charged defaulted to employee's primary account.	Information on Project No./Account associations were not updated timely. Project managers apparently gave staff outdated reporting information causing the wrong account to be charged.
Retroactive pay adjustment was charged to the wrong account.	Retroactive pay adjustments were charged to the General Fund rather than the fund to which the employee's effort was normally charged.

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Error	Cause
Default account entries were not correct. A correction entry was requested. However, not all charges were corrected.	The correction was annotated on the Hours Proof Listing. However, the Labor Distribution Report shows that not all indicated corrections were made. This was a data entry error.
Out of class pay was allocated to Project Nos. while regular pay for the same hours was not.	Payroll Clerk did not enter Project Nos. for regular time which was not shown on the time card.

Recommendations

We recommend that unit Budget Analysts verify default account and project codes quarterly, and provide updated listings to operations supervisors.   We further recommend that supervisors routinely review labor distribution reports to assure that labor costs are correctly charged and that this review should be documented. We recommend that Payroll Clerks be informed when accounts or project codes are changed or discontinued.

Public Works Department Response

The department agreed with the recommendation and notes that there is a need for the coordinated involvement of operating departments, the Payroll Audit Division, and the Information Systems Office in developing an accurate project cost control system. See Appendix 3 for the full text of the response.

PW10.   Public Works Payroll Clerks Enter Their Own Time

Public Works Departmental Payroll Clerks enter their own time cards into the Payroll System.

Discussion

It is poor business practice to give a single employee both full responsibility for transaction recording and the authority to spend City money without review.

Recommendations

We recommend that someone other than the Departmental Payroll Clerk enter the clerk's time to the HTE Payroll System. This action should be documented by signing the Departmental Payroll Clerk's time card.

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Chapter 3.   Public Works Department

Public Works Department Response

The department agrees with the recommendation, and describes corrective action taken. See Appendix 3 for the full text of the response.

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Chapter 4. Health and Human Services Department Payroll Processing (HHS)

HHS regularly employs 257 FTE who work in seven divisions. In addition HHS may hire approximately 175 summer youth workers. We selected a sample of 32 regularly employed people across the seven divisions.

HHS1.   Time Card Changes Not Always Initialed by Employees or Supervisors

Some sampled time card changes of the number of reported hours worked were not initialed by the HHS employee or supervisor.

Discussion

Supervisors should initial changes to hours reported on time cards to show that the changes have been reviewed and are approved. This provides evidence that the changes are appropriate and are reported in accordance with employee effort.

Recommendations

We recommend that supervisors approve all changes to time cards by initialing them.

HHS Department Response

The department agreed to the recommendation, and described the corrective action to be taken. The department also noted that requests to change time cards may be made late in the payroll processing cycle, which requires special handling. See Appendix 4 for the full text of the departmental response.

HHS2.   Support Documentation - Paid Leave

Documentation to support paid leave was not retained by the Departmental Payroll Clerk, or was otherwise not available from HHS in three instances.

Discussion

In cases of disputed time off, both the employer and the employee are protected when documentation has been prepared and signed off in advance of the leave.

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Chapter 4.   Health and Human Services Department

Recommendation

> We recommend that leave request forms be attached to departmental copies of time cards and be retained with them.

HHS Department Response

> The department noted that standard practice is to require submission of leave request forms with time cards. They appeared to be in agreement with the recommendation, in general. See Appendix 4 for the full text of the departmental response.

HHS3.   Labor Distribution Errors – Project Numbers on Time Cards Not Entered into the HTE Payroll System

In the 14 cases sampled where project numbers were written on time cards by reporting staff to override default account distributions; the project numbers were not entered to the HTE Payroll System by the Departmental Payroll Clerk.   The correct project codes were not charged for this time as a result.

Discussion

> Project codes are used to refine costs charged at the department/division level. For some project managers this refinement provides the level of detail cost accounting necessary for adequate control of their programs. For example, it is our understanding that charges by project number were required to successfully bill FEMA grants for staff effort related to fire and storm damage recovery over the last several years.

> HHS management has reportedly instructed Payroll Clerks and Budget Analysts to ignore project numbers appearing on time cards. Payroll costs which should be

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Chapter 4.   Health and Human Services Department

reclassified are reportedly addressed as part of the annual fiscal closing process. This results in significant additional work for the accounting staff in the Department and the Finance Department at year end. Massive cost reclassifications at closing also defeats the idea of monitoring costs against budgets during the fiscal year.

Recommendations

We recommend that project numbers shown on time cards be entered in to the HTE Payroll System. Project numbers are shown on time cards so that managers will have the kind of financial information needed for adequate control. We also recommend that HHS management consult with the Budget Office to assure that project numbers are associated with valid account codes. We further recommend that project number/account number associations be verified quarterly by HHS management, and that operating managers be informed when project numbers or account codes change. We also recommend that frontline supervisors and project managers routinely review labor distribution reports to assure that labor costs are correctly charged, and that this review be documented.

HHS Department Response

The department disagreed with the recommendation, and noted that the department has in place an accounting methodology which adequately tracks costs at the project level. See Appendix 4 for the full text of the departmental response.

Auditor Comment on the HHS Response

We received input from one HHS operating division staff member regarding the quality of cost accounting information available. The purpose of our recommendation was to call for improved cost accounting information within the department. We believe that communication about reporting accounting codes could be improved.

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There is, however, a wider concern about cost accounting in the City. Implementation of the City Manager's performance budgeting and output measurement initiatives will require detailed cost accounting data. The department should be aware of this and be prepared to respond proactively.

HHS4. <u>Manual Attendance Records Maintained in HHS</u>

An annual record is maintained by the HHS Departmental Payroll Clerk for departmental employees attendance and leave. These records duplicate records which are available from the HTE Payroll System.

<u>Discussion</u>

Maintenance of manual attendance and leave records appears to be a legacy from earlier time and attendance systems. The HTE Payroll System provides this information in a monthly report by Department/Division and employee. The information provided by the system is derived automatically from labor codes entered in to the HTE Payroll System and from data establishing leave accrual rates in accordance with Memoranda of Understanding (MOUs). Since there is only one full time Payroll Clerk in HHS, the benefit from not posting a manual record seems clear.

<u>Recommendation</u>

We recommend that the HHS Payroll Clerk monitor the HTE Payroll System Leave Accrual Report against the manual system reports for two or three months. If material discrepancies are not found, we recommend that the manual systems be discontinued.

HHS Department Response

The department notes that manual leave reports serve a number of management measurement purposes. They do not believe that HTE Payroll System automated

reports will meet these purposes. See Appendix 4 for the full text of the departmental response.

Auditor Comment on the HHS Response

Our recommendation was made on a prospective basis, as a potential labor saving device for the Departmental Payroll Clerk. We recognized that in the process of monitoring HTE Payroll System automated leave reports, the Departmental Payroll Clerk might find that the system could be improved to provide better reporting tools in specific ways.

HHS5. Assignment of Youth Employees to Input Timecard Data to the Payroll System

Youth employees assigned to HHS Administrative Services input time card data into the HTE Payroll System. The entries were made under the user identification of the Departmental Payroll Clerk.

Discussion

System security is compromised when the user actually making entries to the system cannot be identified. The Departmental Payroll Clerk function is important to adequate control of data entered into the HTE Payroll System. Departmental Payroll Clerks receive continuing training on system operations and control matters. This control function is also compromised when people are assigned to support the Departmental Payroll Clerk who haven't received training. Additionally, there may be a question of compliance with collective bargaining memoranda of understanding if youth enrollees are assigned responsibilities covered by positions listed in these memoranda.

Recommendations

We recommend that HHS assure that system security is maintained by all workers who have access to the system. We particularly recommend that

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system identification codes not be shared. We also recommend that HHS management consult with the Personnel Department to determine whether youth enrollees may function as departmental accounting or office assistants under collective bargaining agreements.

HHS Department Response

The department states that payroll system security is currently in place. The department response further states that youth have not input hours to the Payroll System during the last two years. See Appendix 4 for the full text of the departmental response.

HHS6.   <u>Employment of Near Relatives in HHS Administrative Services Division</u>

Some youth employees were identified as near relatives of HHS Administrative Services permanent staff members.

Discussion

While there is no City of Berkeley policy prohibiting nepotism, it is a well-settled business practice that one near relative should not supervise another. Quite apart from the obvious issue of favoritism, the discipline of the work place is not the same as the discipline of the home.

Recommendations

We recommend that near relatives not be permitted to work under the immediate supervision of another near relative, nor in the same unit. We recommend that existing circumstances be resolved by transferring employees to other units. We also recommend that the City Manager develop a policy on nepotism in City of Berkeley employment.

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HHS Department Response

The Departmental response notes that this is a citywide concern, and the finding should not be limited to HHS but should apply to all departments. The response also notes that it is understood that the City Manager will issue a policy directive to address this concern. See Appendix 4 for the full text of the departmental response.

Auditor Comment on the HHS Response

We were not aware of a citywide problem regarding supervisory relationships involving near relatives. Our finding was based on information we developed during our review of HHS payroll processing operations. We subsequently inquired about a policy on nepotism, and learned that there was none. We believe that the policy issue is the major point of this finding and recommendation. We also believe, however, that the particular control weakness identified in HHS should be corrected. Accordingly, we made the recommendation that there should be a reassignment of staff to remove this weakness.

City Manager Response

The City Manager was surprised to find that there is no written policy regarding nepotism, and agrees that good management practice dictates that the two employees in the HHS administrative unit should be reassigned in order to prevent supervision by parent and grandparent.

While there are apparently other employees in the City who are relatives, no cases which are as clear cut as this have come to my attention. In order to issue a policy directive covering the City as a whole, I've instructed staff to survey

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other jurisdictions about nepotism policies and see how they should be applied in Berkeley. This will require meet and confer with the City labor unions.

This process should take place early next fiscal year. In the meantime, we will continue to rely on the individual judgement of managers. I want to be clear that nepotism is a definite problem in my view and that it is imperative taht the City develop a coherent policy to protect against such poor management practices.

HHS7.   HHS Payroll Clerk Working From Home

The Departmental Payroll Clerk stated that she sometimes worked from home to enter hours to the HTE Payroll System. There was no indication that this was being done under a telecommuting agreement with the department.

Discussion

Informal telecommuting arrangements may subject the City to risks which management may choose not to accept. A significant concern is whether the informal telecommuter is working in compliance with the Fair Labor Standards Act (FLSA) with respect to overtime compensation. The City may also be liable for compensation should the telecommuter be injured while working from home. Finally, there is a serious question about the security of employee data, and the safety of working materials transported between the City's premises and the home.

Recommendations

We recommend that the Departmental Payroll Clerk not enter original hours, or hours adjustments, to the HTE Payroll System from home.   We also

recommend that primary source documents, such as time cards, should not be removed from COB premises.

HHS Department Response

The departmental response states that the Departmental Payroll Clerk no longer works from home, and that additional staffing has been requested to address the overtime question raised. See Appendix 4 for the full text of the departmental response.

Chapter 5. Library Payroll Processing (LIB)

The Library employs 121 FTE. We drew a sample of 14 employees from this department.

LIB1.   Time Card Not Signed by Employee

An employee did not sign the time card for the test pay period, although the card was properly signed by the supervisor.

Discussion

> The employee's signature on the time card is important because it is the employee's certification that service has been rendered and earnings are due.

Recommendation

> Where an employee is not available to sign a time card, we recommend the supervisor note this in the employee's signature block on the time card.

Library Response

> The Library concurred with the recommendation. See Appendix 5 for the full text of the response.

LIB2.   Time Card Not Signed by Supervisor

One sampled time card was not signed by a supervisor, and one had been rubber stamped with the facsimile signature of the Library director.

Discussion

> The supervisor's signature evidences a review of the time reported by the worker and certification that payment is due. It is more than a formality.

Recommendation

> We recommend that time cards be signed by supervisors to evidence their knowledge that reported time was worked, and payment is due.

Library Response

> The Library concurred with the recommendation. When the cognizant supervisor is not available an authorized back up supervisor or manager will sign the time card. See Appendix 5 for the full text of the response.

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Chapter 5.   Library

LIB3.   <u>Facsimile</u> <u>Signature</u> <u>Stamps</u>

There were two facsimile stamps of the director's signature. The stamps were kept in unlocked desk drawers assigned to the Departmental Payroll Clerk and his supervisor.

<u>Discussion</u>

When a rubber stamp facsimile signature is used, a question arises as to the control of the signature. There is the possibility that the stamps could be used to approve fraudulent transactions by a dishonest person who found out about them.

<u>Recommendations</u>

We recommend that signature stamps be properly controlled and secured. We also recommend that the Payroll Clerk not be assigned responsibility for the Director's signature stamp.

Library Response

The Library agrees with the recommendation, and will secure facsimile signature stamps. See Appendix 5 for the full text of the response.

LIB4. <u>Time</u> <u>Cards</u> <u>Taken</u> <u>Home</u> <u>by</u> <u>Departmental</u> <u>Payroll</u> <u>Clerk</u>

The Library Payroll Clerk was routinely taking time cards home over the weekend in order to complete processing and entry to the HTE Payroll System. This was being done because the Library operates seven days a week and the Payroll Clerk wanted to assure that all hours worked to the end of the pay period were being entered into the system.

<u>Discussion</u>

There are a number of control and management issues in this arrangement. There is presently no COB policy addressing telecommuting. Informal telecommuting arrangements may subject the City to risks which management may choose not to accept. The City may also be liable for compensation should the telecommuter be injured while working from home. Finally, there

is a serious question regarding the security of employee data, and the safety of working materials transported between the Library and the home.

An earlier time card cutoff day would allow the Payroll Clerk to work a normal work week and still enter time to the HTE Payroll System. Time might have to be estimated for several days. However, corrections and adjustments could be recorded during the next payroll cycle.

Recommendations

We recommend that the Departmental Payroll Clerk not enter original hours, or hours adjustments, to the HTE Payroll System from home. We recommend that an earlier cutoff date be considered for receiving and processing Library time cards. Time worked estimates for the time from the cutoff to the end of the pay period which must be subsequently corrected can be handled on the next pay period. We also recommend that, if an earlier time reporting cutoff is instituted, the Payroll Clerk stop processing time cards from home on weekends.

Library Response

The Library disagrees with the recommendation for instituting an earlier time card cut-off day. They believe that an earlier cut-off would not be useful given the Library's seven day operating schedule. The Payroll Clerk is not presently processing time cards from home. See Appendix 5 for the full text of the response.

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Chapter 6.   Parks and Waterfront (PARKS)

There are 91 Parks and Waterfront Department FTE. Our sample included five employees from this department.

PARKS1.   Time Card Changes Not Approved by Supervisors

In two sampled cases, the supervisor had not initialed time card changes to evidence that they had been seen and were correct.

Discussion

The supervisor's initialing of changes evidences a review of the changes reported by the worker. The initials let the Payroll Clerk and the Payroll Auditor know that the changes are appropriate and are approved.

Recommendation

We recommend that all changes to time cards be initialed by the employee's supervisor.

Parks and Waterfront Department Response

The two identified errors were immediately corrected on discovery. The Parks and Waterfront Department, pursuant to City of Berkeley policy, requires that changes to time cards must be initialed/authorized in person via an e-mail attachment by an employee's supervisor. See Appendix 6.

PARKS2.   Overtime Authorization Not Documented

Although a supervisor indicated that overtime worked was approved in one case sampled, no support documentation was available to show that the overtime had been approved in advance.

Discussion

According to the Payroll Manual an employee working overtime is to submit an overtime authorization form in advance of the overtime. The form is to be approved by the department head or delegate, and is filed with the time card submitted for the pay period.

Chapter 6.   <u>Parks</u> <u>and</u> <u>Waterfront</u> (PARKS)

<u>Recommendations</u>

We recommend that Payroll Manual procedure be followed with respect to documentation of overtime authorizations.

Parks and Waterfront Department Response

The identified error was immediately corrected on discovery. In compliance with the Payroll Manual, the Parks and Waterfront Department requires the completion of Overtime Authorization Forms for all anticipated overtime work. The authorized forms must accompany submitted timecards. See Appendix 6.

Chapter 7. __Planning and Economic Development Departments__ (PLAN)

Sixty-four FTE work in the Planning Department in six divisions, while nine FTE work in the Economic Development Department. We selected a sample of five people for our review of payroll processing.

PLAN1.   Time Card Changes not Initialed by Employee or Supervisor

Time card changes were not initialed by the employee or supervisor.

Discussion

In two cases reviewed in the Planning Department, changes to time cards were not initialed by the employee or the supervisor. Original entries which were changed on one of the time cards were masked by correction fluid. Correction fluid should not be used on time cards because it cannot then be determined whether the subsequent change has been properly reviewed and approved. Time card changes should be initialed by the employee and the supervisor to show that an error is being corrected, and that the change has been reviewed and approved by the supervisor.

Recommendation

We also recommend that supervisors approve all changes to time cards by initialing them. We also recommend that correction fluid not be used to make time card changes.

Planning Department Response

The department agreed with the recommendations, and stated that procedure has been changed. The full text of the Planning Department response is attached as Appendix 7.

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Chapter 8. <u>Housing Department</u>

The Housing Department employs 49 FTE. We drew a sample of four employees from the department. We found no exceptions in departmental payroll processing procedures or supporting documentation. Since there were no exceptions, the Department was not requested to respond. Appendix 8 is null.

Chapter 9. Rent Stabilization Board (RENT)

The Rent Stabilization Board has a staff of 25 FTE. Three employees of the Board were included in our sample.

RENT1. Time Card Not Approved by Supervisor

We noted one instance where a time card was not signed by the employee's supervisor.

Discussion

> The signature of the supervisor on a time card is evidence that the supervisor knows personally that the time reported has been worked and that payment is due. This certification is necessary to adequately document the employee's claim for payment.

Recommendation

> We recommend that all staff members be advised that time cards require original signatures from both the employee and the supervisor. We also recommend that the Payroll Manual require original signatures on time cards of both the employee and the supervisor.

Rent Stabilization Board Response

> The Department agreed with the finding, and notes that corrective action will be taken. See Appendix 9.

Chapter 10. Central Administration (CA)

Central Administration consists of the following departments and offices:

1. Mayor and City Council
2. City Manager
3. City Attorney
4. City Clerk
5. Budget and Fiscal Management
6. Capital Projects
7. Finance
8. Information Systems
9. Personnel
10. Police Review Commission
11. Organizational Learning and Effectiveness

Central Administration employs 158 FTE. We also included all elected officials drawing stipends in this grouping. Our sample consisted of 13 staff members and two elected officials from these offices and departments. The Departmental Payroll Clerk for the entire group is assigned to the Budget Unit of the City Manager's Office.

CA1. Overtime Not Authorized in Advance

In one case sampled in the Finance Department, overtime paid was not supported by an overtime authorization form submitted to the Departmental Payroll Clerk.

Discussion

According to Payroll Manual procedure, the employee working the time is to submit an overtime authorization form in advance of the overtime, the form is to be approved by the department head or delegate, and is filed with the time card submitted for the pay period.

Recommendation

We recommend that Payroll Manual procedure be followed with respect to documentation of overtime worked.

Central Administration Response

It was noted that the sampled item was an isolated case where complete documentation was not obtained for the file. It was also noted that the timecard reporting the overtime was signed by the department manager, and therefore the overtime was authorized even though a form was not attached. See Appendix 10.

Auditor Comment on the Central Administration Response

We agree that the specific instance we commented on may be an isolated case; however, our concern is to assure that there is documentation that overtime worked has been appropriately authorized in advance.

Chapter 11. Payroll Audit Division Operations (PAY)

PAY1. Unrestricted Access of Payroll Auditors to Employee Payroll Records

All Payroll Audit Division staff members have unrestricted access to all employee payroll records.

Discussion

Payroll Audit Division staff are assigned to cover specific departments. For expediency it may be appropriate for Division staff to have access to payroll records for their assigned departments; however, access to all payroll records is unnecessary. Additionally, this blanket authorization poses an unnecessary risk that unauthorized changes could be made and not detected timely.

Recommendations

We recommend stronger security over access to HTE Payroll System records. We recommend limiting Payroll Audit Division staff access to only those records for employees in their assigned departments.

Payroll Audit Division Response

Payroll Audit Division management agreed with the recommendation. An effort will be made to limit access to HTE Payroll System record to the extent practicable. See Appendix 11 for the full management response.

PAY2. Time Card Approval Authorizations

Time card approval authority records were last updated on August 17, 1992. There have since been many changes in these authorities. None were sent to the Payroll Audit Division.

Discussion

The Payroll Manual requires an annual validation and update of these authorities to be sent to the Payroll Audit Division. In researching the overpayment of premium pay in Public Works, we noted that Public Works Administrative staff was

uncertain about exactly who supervised the overpaid employee. It seems clear that, as a general control, the list of supervisors who have authority to approve specific employees time cards should be updated annually in the departments, as well as the Payroll Audit Division.

Recommendation

We recommend that Payroll Audit annually request a list of departmental supervisors authorized to approve time cards in accordance with the Payroll Manual. We also recommend that a copy of the list be maintained in departmental administrative files, in addition to the list sent to the Payroll Audit Division.

Payroll Audit Division Response

Payroll Audit Division management agreed with the recommendation, and committed to sending a request for updated signature authorizations to operating departments by May 31, 1999. See Appendix 11 for the full management response.

PAY3.   Reporting Payroll Processing Errors

There was a relatively high error rate citywide in those attributes addressing time card preparation and approvals. We did not find a reporting mechanism to improve the quality of payroll processing.

Discussion

An e-mail form could be designed for Payroll Auditors to provide feedback to Departmental Payroll Clerks and supervisors when time card completion procedures are not in accordance with Payroll Manual standards.

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Chapter 11. Payroll Audit Division

<u>Recommendation</u>

We recommend that Payroll Audit design and implement an e-mail form to report common errors to Departmental Payroll Clerks and their supervisors. Corrective action would be initiated at the departmental level.

Payroll Audit Division Response

Payroll Audit Division management agreed with the substance of the recommendation, but noted that implementation will require significant improvements over current technology.   See Appendix 11 for the full response.

Information Systems Office Response

We'll be happy to design an e-mail form once Microsoft Outlook is established as our new e-mail client. Target date: October, 1999. See Appendix 13.

PAY4. <u>Paper-based Time Recording Systems</u>

Two-part paper time card forms have been used for at least 10 years. Time cards are generated in blank as to hours for each employee who received a payroll payment the last pay day. These forms were adopted in order to make individual employees accountable for timely reporting. The time card forms are a legacy from older time-keeping practices and procedures.

<u>Discussion</u>

An e-mail, network, or HTE Payroll System-based time reporting system could significantly reduce the amount of time presently required by Payroll Clerks and Payroll Auditors to process payrolls. The time gained could be used to provide better management control over payroll costs, including assuring timely, accurate data for billing labor costs on grants. Further, electronic storage of time report data would not only save space in the Payroll Audit Division, it would make retrieval a far easier process than it is now.

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Chapter 11. Payroll Audit Division

Recommendation

We recommend that, as HTE Payroll System processing improves, and time recording technology advances, the Office of the City Auditor and the Office of Information Systems consider replacing the current timecard system with a state of the art system.

Payroll Audit Division Response

Payroll Audit Division management agrees with the recommendation, but notes that a survey of electronic time recording technology is needed to determine what systems would be optimal for the City. Division management committed to completing a survey by June 30, 1999. The Payroll Audit Division manager also recommends exception time reporting for exempt employees who are not required to report their time by project. This would apply to approximately seven percent of the workforce and would be a considerable time-saving process on Payroll System input for some Departmental Payroll Clerks. See Appendix 11 for the full text of the response.

Information Systems Office Response

The Information Systems Office believes the HTE Payroll System can handle direct on-line timecard entry. Concerned City offices should first examine this option before looking at alternatives. An interdepartmental group should investigate this and report back. See Appendix 13.

Auditor's Position on the Information System Office Response

The working group should report back to the City Auditor by October 31, 1999.

Chapter 11. Payroll Audit Division

PAY5. Proliferation of Payroll System Codes

As noted in the Background Section of this report, there are 330 data entry codes in the payroll system. It was not clear that there is a continuing need for that many codes to characterize the effort and benefits of City employees.

Discussion

The number of payroll system codes is driven to a large extent by differing MOU requirements established through the collective bargaining process. This very large number of codes imposes significant burdens on both the HTE Payroll System and the people who process payroll transactions. Payroll processors must know which codes to apply for each bargaining unit's MOU. If an error is made, which can easily happen when processors must be familiar with so many codes, additional work must be done to make corrections. Payroll System controls will be improved to the extent that the number of codes can be reduced.

Recommendations

We recommend a study, over a typical three month period to evaluate the frequency of labor code usage. Those numbers which are infrequently or not used should be considered for removal from the HTE Payroll System. We also recommend that an analysis to estimate the costs to the city of the large number of payroll system codes now in use. We further recommend that this information be provided to the City Manager for consideration of the costs and benefits of amending MOUs in order to streamline payroll processing.

Payroll Audit Division Response

The Payroll Audit Division manager agrees conceptually with the recommendation. However, the manager notes that because the HTE Payroll System maintains historical data for each employee, it is not possible to simply delete codes. The manager also notes that moving toward more uniformity over

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time will improve processing efficiency, and convey other benefits. See Appendix 11 for the full text of the response.

PAY6. Payroll Manual Outdated

During the course of this audit we noted that the Payroll Manual was last revised in 1993. There have been a great many changes in procedure and payroll tax laws and regulations since the last revision.

Discussion

The Payroll Manual is an important tool to assure that payroll processing is uniform across City departments. The manual should be reviewed at least annually, and updated for any regulatory changes. A subcommittee of the Payroll Continuous Service Improvement Committee is revising the manual to reflect current procedure.

Recommendations

We recommend that the subcommittee be made permanent. We also recommend that the subcommittee complete their work, obtain necessary approvals, and publish the revised Payroll Manual as soon as possible. We further recommend that the subcommittee review regulatory, policy, and procedure changes affecting payroll, and prepare annual updates to the Payroll Manual thereafter.

Payroll Audit Division Response

Payroll Audit Division management noted that the payroll manual is in the final stages of an updating revision. The CSI Payroll Manual Subcommittee will be asked to review and update the manual annually in the future. See Appendix 11 for the full text of the response.

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Chapter 12. Personnel Department Matters (PER)

PER1. Inconsistent Administrative Components in Memoranda of Understanding

The sample of employees was drawn across the full spectrum of bargaining units and unrepresented employees. Our review of the Memoranda of Understanding disclosed some inconsistencies in provisions which addressed common practices.

Discussion

Some inconsistencies arise as the bargaining units propose benefit and working condition packages which differ, but which the memberships consider are to their advantage. Uniformity of common provisions simplifies both personnel administration and payroll management and processing.

Recommendation

To the extent practicable, we recommend that the City Manager give high priority to making Memoranda of Understanding language uniform as contracts come open for renegotiation.

Personnel Department Response

Personnel Department management noted that they are cognizant of administrative and payroll processing difficulties. The Department also notes that for this reason operations staff have recently been included in the negotiating process. See Appendix 12 for the full text of the response to this recommendation.

City Manager Response

A survey of other cities and their practices would also be helpful to help inform what steps the Cit will take. Since it will most certainly impact current labor agreements and will require meet and confer with all the City unions, staff will return and discuss with Council prior to implementation. This could be included in the next progress report on implementation of audit recommendations.

Chapter 12. Personnel Department Matters

PER2. <u>Employee</u> <u>Transaction</u> <u>Forms</u> <u>Data</u> <u>Base</u>

Employee Transaction Forms (ETF) are multi-part paper forms prepared by the Personnel Department to initiate action on all permanent changes, and some temporary changes with ending dates, in employee status. Original copies of these forms are filed by employee in Personnel Department files.

<u>Discussion</u>

The use of printed forms to record employee transactions deserves reevaluation. The HTE FUND$ Purchase/Inventory module provides a model for automation of these forms. Once the original action process is computerized, historical records can be stored in electronic form. If a physical image of the form is necessary, it can be printed from the electronic record. Maintenance of physical files becomes unnecessary.

<u>Recommendation</u>

We recommend that Personnel Department management consider automating the entire ETF process.

Personnel Department Response

Personnel Department management agrees with the recommendation in concept. The response notes, however, that the HTE Payroll System does not presently have the functionality required for automating ETF files in a way that will meet the needs of the City. See Appendix 12 for the full text of the response to this recommendation.

Auditor Comment on the Personnel Department Response

While the department should certainly look first to the HTE Payroll System to provide database functionality, form files can be readily automated with stand-alone PC-based systems. Such systems are relatively inexpensive, and are currently available on the market. Some of these systems allow documents to be

Chapter 12. Personnel Department Matters

altered after input. Some are intended to provide images of original documents only. The latter would be applicable where filed documents are subject to subpoena. The intent of the recommendation was to suggest that the department review the feasibility of installing archival filing systems in addition to, or as an alternative to functionality offered by the HTE Payroll System.

Chapter 13. HTE FUND$ Payroll Systems Concerns (SYS)

SYS1. <u>Hours Entry Screens Have No Edit/Validity Test Capability to Validate Labor Distribution Information</u>

Edit reports are not available until overnight payroll processing is complete. That is, the HTE Payroll System was not designed to test the validity of hours distribution entries as they are made, or to feed this information back to the person doing the data entry at the time of the entry.

Discussion

The absence of an input screen edit function is apparently the result of the centralized system concept used by HTE in the design of the system. If all data are input centrally, a centralized data control function would make a post input review and reject items which failed edit tests. Because data input is decentralized, and time-lines are short, there was no effective review of available edit information at the time of the audit.

Recommendation

We recommend development of an on-screen edit facility which will either inform the Payroll Clerk that an account entry is questionable, or prevent the entry from being registered by the system until it is correctly input.

Information System Office Response

Information Systems Office management responded by noting that the technical feasibility of implementing this recommendation needs to be evaluated. They commit to making this evaluation by June, 1999. See Appendix 13.

SYS2. <u>Pay Rate Entry Processor Also a Departmental Payroll Clerk</u>

The Office of Information Systems (I/S) has accepted responsibility for updating the Payroll System for employee pay rate and classification changes. Because I/S no longer

Chapter 13.   Information Systems Office

has a data entry function, they have contracted out this responsibility to one of the Payroll Clerks assigned to the Fire Department.

Discussion

Payroll System input of classification and pay rate data is not a full-time job, so I/S offered to pay overtime to the Fire Department Payroll Clerk to process the changes outside regular business hours. This person has also been asked to take on Payroll Audit Division Senior Accounting Office Assistant responsibilities when a regularly assigned Payroll Auditor was away for any period of time. There is risk in assigning original payroll data input and ongoing system maintenance to the same person.

Since the Information Systems Office does not support a data entry function, it would appear to be most appropriate for input responsibility for Payroll System changes to be assigned to the Personnel Department. It was noted by a Personnel Department representative, however, that the Personnel Department does not have sufficient staff resources to handle the responsibility.

Recommendations

We recommend that the Information Systems Office budget for payroll processing be reallocated to the Personnel Department. We also recommend that the Fire Department Payroll Clerk not be responsible for input of public safety employee changes to the Payroll System. We further recommend that those changes be assigned to a Payroll Clerk from another department, on the same basis as that offered to the Fire Department Payroll Clerk.

Information Systems Office Response

Information Systems agreed with the recommendation, but noted that only a very small amount of money is involved. See Appendix 13.

Auditor Comment on the Information Systems Response

Our concern is not the compensation involved, but rather compromise of the control system.

SYS3. Labor Distribution Errors

Hours worked shown in the HTE Payroll System Labor Distribution Report do not always agree with hours reported on time cards.

Discussion

This problem appeared to result when Payroll Clerks did not post hours following the appropriate protocol. Hours appearing in the HTE Payroll System Labor Distribution Report incremented incorrectly. Cost extensions in the report were generally correct, however. According to Information Systems Office Programmer Analysts, incorrect increments of hours in the Labor Distribution report is not always the result of clerical error. The treatment of additional pay and some other adjustments to gross pay within the system results in the Labor Distribution report showing more hours than have actually been worked. Hours summary data would be an important management tool, reporting productivity by employee. Currently, hours summary data in the report is unreliable and is not used.

Recommendation

We recommend that, since reported hours worked are unreliable, they not be shown on the Labor Distribution report.

Information Systems Office Response

The Information Systems Office agreed with the recommendation, but noted further study is required. See Appendix 13 for the full text of the response.

III. Conclusion

The findings and recommendations presented above were grouped by department for presentation to department directors. Many findings were repeated because the same problems were noted in more than one department. This can be seen more graphically in Exhibit I. There are a number of findings and recommendations that require action by the City Manager rather than any particular department head. The principal recommendations to be addressed by the executive are: first, the development, implementation, and enforcement of an anti-nepotism policy; and second, the development of proposals to make the technical terms of the Memoranda of Understanding uniform.

Payroll processing in the City will generally improve with the development of a current payroll processing manual, ongoing maintenance of the manual, and continual updating of Departmental Payroll Clerk knowledge through regular in-service training sessions as part of the Payroll CSI initiative. Payroll CSI is an important link in ensuring that departmental supervisors are properly trained in time reporting and processing. Payroll CSI should be a permanent part of a payroll processing quality control system.

end

					Department Reviewed					
	Elected Officials and Aides	City Auditor	City Manager	City Clerk	City Attorney	Budget Office	Information Systems Office	Finance Department	Personnel Department	Health and Human Services Department
FTE Staffing 1997-98	12 **	15.0	9.0	12.0	17.0	4.7	13.0	63.5	21.0	256.5
No. in Sample	3	1	1	1	1	1	1	5	2	32
Attribute Reviewed										
Time Card Signed by Employee	Unsigned (Except for staff)	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Time Card Signed by Supervisor	Yes (where appropriate)	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Time Card Changes Signed by Supervisor	Yes (where appropriate)	N/A*	N/A*	N/A*	N/A*	N/A*	N/A*	N/A*	N/A*	No (3 cases)
Time Card HTE Input Correct	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	No (1 case)
Pay Rate Correct	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Overtime Correct	N/A	N/A	N/A	N/A	N/A	N/A	N/A	Yes (1)	N/A	N/A
Vacation Leave Accrual Correct	N/A	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes (14 cases) N/A (18 cases)
Sick Leave Accrual Correct	N/A	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes (14 cases) N/A (18 cases)
Gross Pay Calculation Correct	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	No (1 case) (6)
Support Complete / Time Card Agrees	Minutes Document Attendance	Yes	Yes	Yes	Yes	Yes	Yes	Yes (1)	Yes	No (3 cases) Yes (4 cases) N/A (25 cases)
Labor Distribution Errors Identified	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	Yes (14 cases) N/A (7cases) (7)
Payroll Check Custody Signatures Obtained	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	Yes (20 cases) N/A (12 cases)
Pay Adjustment Documentation Signed by Supervisor	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Payroll Audit Division Has List of Supervisor Names	Last Updated in 1992 (8)	Last Updated in 1992 (8)	Last Updated in 1992 (8)	Last Updated in 1992 (8)	Last Updated in 1992 (8)	Last Updated in 1992 (8)	Last Updated in 1992 (8)	Last Updated in 1992 (8)	Last Updated in 1992 (8)	Last Updated in 1992 (8)
* N/A = Not applicable to the sample item tested	** Source: 1998-99 Biennial Budget									
See Notes Page 3				1						

			Department Reviewed					
	Fire Department	Police Department	Housing Department	Library	Parks and Waterfront	Planning and Economic Development Departments	Public Works Department	Rent Board
FTE Staffing 1997-98	141.0	318.6	49.0	121.1	90.7	52.9	298.1	24.6
No. in Sample	10	26	4	14	5	5	23	3
Attribute Reviewed								
Time Card Signed by Employee	No (9 cases) (2)	No (2 cases) (4)	Yes	No (1 case)	Yes	Yes	No (4 cases)	Yes (2 cases) N/A (1 cases)
Time Card Signed by Supervisor	No (9 cases) (3)	No (3 cases) (5)	Yes	Yes	Yes	Yes	Yes	No (1 case)
Time Card Changes Signed by Supervisor	N/A*	Yes (20 cases) N/A (12 cases)	Yes	No (1 case)	N/A*	No (3 cases)	No (5 cases)	N/A*
Time Card HTE Input Correct	Yes	Yes	Yes	Yes	Yes	Yes	No (4cases)	Yes
Pay Rate Correct	No (2 cases)	Yes	Yes	No (1 case)	Yes	Yes	No (5 cases)	No (1 case)
Overtime Correct	No (1 case)	No (2 cases)	Yes (1 case) N/A (2 cases)	Yes (2 cases) N/A (12 cases)	Yes	N/A	No (5 cases)	N/A
Vacation Leave Accrual Correct	No (1 case)	Yes	Yes	Yes (13 cases) N/A (1 case)	Yes	Yes	No (2 cases)	Yes (1 case) N/A (2 cases)
Sick Leave Accrual Correct	Yes	Yes	Yes	Yes (13 cases) N/A (1 case)	Yes	Yes	No (1 case)	Yes (2 cases) N/A (1 cases)
Gross Pay Calculation Correct	No (3 cases)	Yes	Yes	Yes	Yes	Yes	No (10 cases)	Yes
Support Complete / Time Card Agrees	No (9 cases)	No (3 cases)	Yes	Yes	Yes	No (2 cases) (2)	No (16 cases)	Yes (2 cases) N/A (1 cases)
Labor Distribution Errors Identified	N/A	N/A	N/A	No	No	N/A	Yes (10 cases)	N/A
Payroll Check Custody Signatures Obtained	Yes (4 cases) N/A (6cases)	Yes	Yes (1 case) N/A (3 cases)	Yes (3 cases) N/A (11 cases)	Yes (2 cases) N/A (3 cases)	Yes (2 cases) N/A (3 cases)	Yes or N/A	Yes (2 cases) N/A (1 cases)
Pay Adjustment Documentation Signed by Supervisor	No (1 case)	No (3 cases)	N/A	N/A	N/A	N/A	No (2 cases)	N/A
Payroll Audit Division Has List of Supervisor Names	Last Updated in 1992 (8)	Last Updated in 1992 (8)	Last Updated in 1992 (8)	Last Updated in 1992 (8)	Last Updated in 1992 (8)	Last Updated in 1992 (8)	Last Updated in 1992 (8)	Last Updated in 1992 (8)
* N/A = Not applicable to the sample item tested								
See Notes Page 3				2				

Exhibit I Notes:

(1) Documentation was not available for overtime worked in 1 case

(2) The fire department submits time cards which have been completed by the Departmental Payroll Clerks and are not signed by the reporting employee.

(3) The Fire Department submits time cards which have been completed by the Departmental Payroll Clerks and are not signed by employee supervisors. Time is tracked in the department by daily shift roll call documents which are signed by shift commanders.

(4) Police Department time card corrections were recorded in blue ink by the Departmental Payroll Clerks and checked in Green Ink by the Payroll Auditor. The corrections were not initialed by the affected employees supervisor.

(5) In two instances Police Department time cards were imprinted with a block stamp of the supervisor's name. The stamped name was not intialed.

(6) Documentation was not provided to support 3.5 hours of overtime paid as a phone in adjustment

(7) Project codes were not entered or were incorrectly entered for 14 employees who listed specific project numbers on their time cards for the pay period. Additionally, some project codes which had been established as default entries were incorrect.

(8) The list of supervisors authorized to approve time cards, and time card changes and adjustments has not been updated since 1992.

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Fire Department

TO: Grant Bennett, Audit Manager

FROM: Reginald Garcia, Fire Chief

DATE: April 14, 1999

Subject: **PAYROLL PROCESSING AUDIT - RESPONSE TO DRAFT REPORT**

FD1.   Signatures of Time Cards

The current practice of the shift supervisors verifying and signing a daily roll call log sheet was established many years ago and continues to provide the most effective method of verifying work for sworn fire fighters working in the field. Due to the 24 hour shift configuration of sworn personnel and constant staffing requirements, the current system was designed to accommodate these unique issues that exist in the fire department. The shift supervisor is responsible for ensuring staffing levels are filled on a daily basis. Our suggestion is to review the current system and make the appropriate adjustments as needed, and continue to provide periodic reviews of this process. Because of the size of our department, and the multiple work sites the paycheck log has provided a functional method of distributing pay checks.

FD2.   Personnel Department concurrence in Higher Class Payment Authorization

I agree with the recommendation and will continue to prepare EFTs for higher class pay authorizations which last longer than 30 days, or prepare Blanket Transactions Forms to authorize higher class pay for periods of less than 30 days. These authorizations will be submitted to Personnel for approval.

FD3.   Manual Attendance and Leave Records

I would like a further detailed explanation of this recommendation. I agree that this is not the best use of our payroll clerks time, however the manual records are frequently consulted by supervisors in the absence of the payroll clerk during non business hours.

City of Berkeley

Police Department
2171 McKinley Avenue
Berkeley, California 94703

(510) 644-6743   Fax (510) 644-8556

D. E. Butler
Chief of Police

March 30, 1999

To: Grant Bennett, Audit Manager

From: D. E. Butler, Chief of Police $D \mathcal{E} \mathcal{O}$

Subject: PAYROLL PROCESSING AUDIT – RESPONSE
            TO DRAFT REPORT

Your draft report on the citywide payroll audit shows five issues and recommendations regarding the processing of police payroll. This memorandum is a response to your draft report.

PD1.   Signatures on Time Cards

The current practice of supervisors and employees signing blank time cards was established many years ago with the concurrence of the auditor's office. This practice has never seemed to be an appropriate control mechanism.

The Department prefers that payroll clerks complete the time cards based on our original records (unit time sheets, extraordinary duty reports and absence reports). This practice results in accurate recording of time with little need for follow-up corrections and payroll adjustments. Unfortunately, there is not enough time for the payroll clerks to complete the time cards and route them for signature before the close of payroll processing.

Having clerks estimate time for those working nights and weekends would create the need for many corrections because of the uncertain work hours for those assigned to patrol duties. Officers and sergeants frequently earn or take off on compensatory time on short notice depending on work load and service needs.

I propose that a new procedure be established for employee and supervisor signatures to certify time worked. Payroll clerks should complete the blank time cards, based on our original records, without first routing then for signature. Once the cards are completed, the original should be routed to the Auditor's Office for payroll processing. The payroll clerk's copy would them be routed to work units for the employee and supervisor

signatures. After the cards are signed, they would be returned and filed by the payroll clerk. Although the Auditor would not have a signed copy of the time card, there would be a signed copy on file and available for inspection. This process would not generate any additional work and it would provide the needed signatures on a completed copy of the time card.

PD2. Time Card Changes Not Approved by Supervisors

If the above proposal is adopted, employees and supervisors will be signing final copies of the time cards, after any correction has been made. Payroll clerks have been advised not to use correction fluid on time cards.

PD3. Manual Attendance and Leave Records

The manual records serve several purposes and payroll clerks prefer to leave their system in place. The records in the HTE payroll system are not always accurate; accordingly, the manual record is a valuable back up for the payroll clerks. In addition, clerks record attendance information in the manual record that the HTE system does not accept, making it a more complete record. The HTE system provides current year to date records, but only the manual record provides a complete attendance history. Supervisors, who do not have HTE access, also use the manual record to review their employee's attendance history.

PD4. Block Stamp Approval Signature

The use of stamps in place of signatures on time cards is not a routine practice. Supervisors will be advised to sign all time cards and payroll clerks will be advised not to accept stamped signatures.

PD5. Timely Documentation of Overtime Worked

A review of the one noted discrepancy indicates this is an unusual occurrence. I agree with the recommendation that overtime reports be prepared and approved in a timely manner.

cc: Lt. D. Hambleton
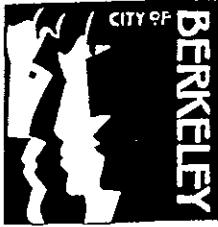
Department of Public Works

DATE: April 15, 1999

TO: ANN-MARIE HOGAN, City Auditor

FROM: ANDREAS CAMPOS-KREUTZER, Director of Public Works *ACK*

RE: PUBLIC WORKS RESPONSE TO CITYWIDE PAYROLL AUDIT

We have reviewed your March 1999 draft audit report. Peggy Gibbons and Beverly Small of my staff met on April 6, 1999, with Grant Bennett and Frank Marietti of your staff to discuss its findings and recommendations. The following documents our response to the recommendations:

In general, we found the audit report to be thorough and the audit itself well conducted. At the departmental audit conference we identified certain factual errors which your staff indicated would be adjusted in the revised document.

We share your concern for the proliferation of pay codes which results in increasingly complex payroll processing and would support a reconsideration of the many pay codes as an inter-departmental, labor/management effort. We also support the need for increased feedback from the Payroll Audit Division of your organization. The importance of regular feedback and system-generated reports that focus on correcting data and informing procedures and practices cannot be over-emphasized.

The period of your audit predated the reorganization of the Financial Services unit of the Administration division. As indicated below, we began the reorganization effort in the Fall of 1997. We are satisfied that most of the findings of your audit confirmed our belief in the need to reconfigure our accounting resources to effect needed changes. As you are aware, we are in the process of implementing several internal payroll processing changes which will address some of your recommendations. These are noted below.

2201 Dwight Way, Berkeley, CA 94704   Tel: 510.644.6506   TDD: 510.548.1351   Fax: 510.644.8830
E-mail: publicworks@ci.berkeley.ca.us

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Recommendation PW1

We recommend that frontline managers assure that accounting codes appearing on departmental forms are correct before the forms are forwarded to the Departmental Payroll Clerk for system entry.

PW Response: AGREE

We have initiated regular meetings with our operating divisions on the importance of accuracy of the labor distributions. This will require training and feedback on an ongoing basis. We would also add that periodic (at least annual) reviews of the Payroll System defaults would also be appropriate.

Recommendation PW2

We recommend that Supervisors and Departmental Payroll Clerks assure that overtime and leave request documents are submitted to support payroll transactions.

PW Response: AGREE

This is our current policy and practice. Payroll accounting staff do not process time cards if leave or overtime authorizations are missing.

Recommendation PW3

We recommend that entries to the HTE Payroll System be made only from time cards which have been signed by employees, and approved by their supervisors, except when the employee is unavailable for explained reasons.

PW Response: DISAGREE

The instrument which currently captures Facilities Division pay and labor distribution information is the Work Order time sheet, and for the Engineering division is the project time sheet - NOT the time card. The time card captures primarily pay types and not distribution data. However, we do agree that the Work Order and project time sheet and the time cards should agree as to total hours. We will shortly move to scanner technology which will eliminate the need to reconcile Work Order time sheets and time cards by consolidating pay type and distribution on a single time sheet which will be scanned to capture data.

Recommendation PW4

We recommend that additional pay authorizations be reviewed and approved by supervisors at least annually. We also recommend that the Departmental Payroll Clerks maintain a history file for these transactions.

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> ### PW Response: AGREE
> We currently cross-check monthly (and will check annually as well) all "add pays."
> We have already processed several adjustments. We recently revised the blanket
> authorizations and add pays. We maintain a history file of the adjustments and
> related transactions.

Recommendation PW5
*We recommend that all payroll adjustments be reviewed by frontline supervisors before they
are entered into the HTE Payroll System.*

> ### PW Response: AGREE
> The recommendation relates to adjustments of a prior period on a subsequent time
> card. We developed and for several months have been using a form which requires
> both the employee and supervisor signature for each adjustment. A completed sample
> of this form was provided to your staff during our departmental audit conference.

Recommendation PW6
*We recommend that Public Works management review the departmental timekeeping and
payroll accounting function, and consider whether a more effective approach to processing
adjustments can be implemented.*

> ### PW Response: AGREE
> Beginning in the Fall 1997 we developed a reorganizational proposal to create a
> Financial Services Unit of the Administration Division, which was implemented in
> July 1998. This change strengthened our accounting and analytical capacity and
> allowed us to begin implementing key initiatives within the Division to improve the
> timeliness and quality of our accounting transactions. In the area of payroll, we have
> introduced system-generated time cards, a look-up table to help reduce labor
> distribution errors, and the new scanner technology to significantly reduce data entry
> to allow increased time for analysis and data correction.

Recommendation PW7
*We recommend that all alterations to time cards clearly show their purpose, and be initialed
by the employee and the supervisor.*

> ### PW Response: AGREE
> Former accounting staff were reminded to document time card changes and require
> employee and supervisor acknowledgement of changes. Current accounting staff
> insist upon explanations of changes and the initials of the affected employee and
> her/his supervisor.

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Recommendation PW8

Time cards should not be altered using correction fluid. Any entry to a time card by a Departmental Payroll Clerk should also be initialed and explained.

> **PW Response: AGREE**
> Employees and accounting staff are reminded of this requirement. Current accounting staff will reject time cards altered with correction fluid. Accounting staff are required to document time card or time sheet changes.

Recommendation PW9

We recommend that unit Budget Analysts verify default account and project codes quarterly, and provide updated listings to operations supervisors. We further recommend that supervisors routinely review labor distribution reports to assure that labor costs are correctly charged and that this review should be documented. We recommend that Payroll Clerks be informed when accounts or project codes are changed or discontinued.

> **PW Response: AGREE**
> The Budget staff verifies default codes upon review of certain edit reports, and corrects project and work order account code linkages. The review of the Labor Distribution report by supervisors will have increasing utility as the report's accuracy is improved through further review by Finance, Information Systems, your Payroll Audit unit and the departmental accounting staff involved with payroll processing.

Recommendation PW10

We recommend that someone other than the Departmental Payroll Clerk enter the clerk s time to the HTE Payroll System. This action should be documented by signing the Departmental Payroll Clerk s time card.

> **PW Response: AGREE**
> This practice did occur during the audit period, though staff was repeatedly counseled on this subject. Current accounting staff no longer enter their own time. The time for the Administration division account clerk is entered by the Associate Management Analyst who supervises the accounting staff.

cc: James Keene, City Manager
       Phil Kamlarz, Deputy City Manager
       Weldon Rucker, Deputy City Manager
       Peggy Gibbons, Senior Budget Specialist
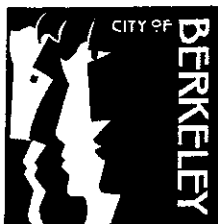
Health and Human Services
Department

Memorandum

Date: April 9, 1999

To: Grant Bennett, Audit Manager

From: Fred Medrano, Director HHS

Subject: <u>CITYWIDE PAYROLL PROCESSING AUDIT</u>

Below you will find the HHS Department response to the Citywide Payroll Processing Audit findings dated March 18, 1999. Please note that this response reflects preliminary discussion between my Office and you on April 1, 1999, as well as more detailed internal follow-up discussion between my Office and HHS Administrative Services Division staff today.

Introduction: HHS does not directly process payroll for 300 to 600 summer youth workers. The youth hired by the City of Berkeley through the County's Job Training Partnership Act (JTPA) are paid directly by Wells Fargo Bank. The Department's Payroll Unit does process bi-weekly payroll for the University of California youth employment program, In-School youth employment program and the City's Public Works summer program. HHS is responsible for processing approximately 175 youth time cards during summer months, and approximately 7 during the school year.

<u>HHS 1.Time Card Changes Not Always Initial By Employees or Supervisor:</u>

<u>Recommendation:</u>
We recommend that supervisors approve all changes to time cards by initialing and dating them.

<u>Response:</u>
The HHS Payroll Unit receives employee time cards from approximately 25 different locations. The current practice is that when employees work additional time and time cards have been submitted, supervisors either call in or E-mail the Payroll Unit to request the change. When this information is reported after Monday at 5:00 p.m., HHS Payroll contacts the Auditor's Payroll Unit in person to

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make any changes to the employee's time directly into the HTE system. HHS staff are not permitted to make changes after Monday at 5:00 p.m. Changes to the time card are made on the Department's duplicate copy, and the original time card is changed by the Auditor's Office (see the attached

corrected employee's time card). The current practice is that this procedure is verified by both HHS and Auditor payroll staff.

The time cards audited were in fact changed by the supervisor. Supervisors will be advised not to superimpose hours on the time card in the future. Instead, they will be advised to make corrections by striking out incorrect hours, inserting correct hours and then initialing and dating these changes.

HHS 2. Support Documentation - Paid Leave:

Recommendations:
We recommend that Leave Request Forms be attached to departmental copies of time cards and be retained with them.

Response:
The current practice is that HHS payroll staff requires supervisors to attach Leave Request Forms to employee time cards. In the event that the Leave Request Form is not attached to the employee's time card, HHS payroll staff contacts the supervisor to advise that the employee's check or remittance advice will be held in Payroll until the supervisor provides the Leave Request Form.

HHS 3. Labor Distribution Errors - Project Numbers On Time Cards Not Entered into HTE Payroll System:

Recommendations
We recommend that project numbers shown on time cards be entered into the HTE Payroll System. Project numbers are shown on time cards so that managers will have the kind of financial information needed for adequate control. We also recommend that HHS management consult with the Budget Office to assure that project numbers are associated with valid account codes. We further recommend that project number/account numbers associations be verified quarterly by HHS management, and also recommend that frontline supervisors and project managers routinely review labor distribution reports to assure that labor costs are correctly charged, and that this review be documented.

Response:
It is our understanding that this finding will be addressed in the Auditor's executive summary as it applies city-wide, and because system remedies will depend on modifications to the HTE/GMBA interface.

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According to the Manager of Administrative Services, it should be noted for the record that staff have not been instructed to ignore project numbers appearing on time cards. Further, since the establishment of the HTE system, HHS has had approval from the City Manager's Budget Unit to use the Division/Activity code to identify each individual program or project. The prior Budget Manager discontinued assigning project codes for HHS unless the Department justified its use due to overlapping fiscal years or required by grantor.

The project codes on all but one of the sampled time cards were in fact invalid. They reflected prior years projects when project codes were used. It is our understanding that the HTE system will not accept invalid project codes.

HHS will continue to use Division/Activity codes to verify staff distribution in the HTE payroll system. Where the use of project codes does apply, (federal grants w/overlapping fiscal years), payroll staff will input the proper project code into the HTE system.

HHS 4. Manual Attendance Records Maintained in HHS

Recommendation
We recommend that the HHS payroll monitor the HTE Payroll System Leave Accrual Reports for two (2) or three(3) months. If material discrepancies are not found, we recommend that the manual system be discontinued.

Response
The manual reports maintained in HHS are not used for the HTE Leave Accrual Report. These reports are used by the Department as management tools, as follows:

1. Part Time Recreation Activity Leaders (PTRAL) seniority status.
2. Step increases for Department wide hourly employees.
3. Maintain hours for Aquatic staff pay differentials.
4. Maintain daily rated status of CAMP staff job title change.
5. Maintain status for management review of accumulative hours worked.

Because the HTE Leave Accrual Reports are used only for employee balances and leave information, HHS will continue to produce these manual reports in order to support management operations.

HHS 5. Assignment of Youth Employees to Input Time Card Data into the Payroll System

Recommendation
We recommend that HHS assures that system security is maintained by all workers who have access to the system. We particularly recommend that system identification codes and passwords are not shared. We also recommend that HHS management consult with the Personnel Department to determine whether Youth Enrollees may function as departmental accounting or office assistants under collective bargaining agreement.

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Response
The payroll security system is currently in place and no Youth Enrollees have access to the Network nor are they inputting hours under other employee's User ID.

The Department did at one time allow Youth Enrollees to input payroll information into the HTE system. Due to concerns regarding internal controls, the Department met with the prior Deputy Auditor of Payroll to request Network User ID for these youth employees. At that time we were advised that it would not be acceptable for the youth to input hours. As a result, the Department discontinued this practice over two (2) years ago. In addition, the Department will be hiring a half time Accounting Office Assistant to assist the payroll unit.

HHS 6. Employment of Near Relatives in HHS Administrative Services Division

Recommendations
We recommend that near relatives not be permitted to work under the immediate supervision of another near relative, nor in the same unit. We also recommend that the HHS evaluate hiring procedures for youth to assure that the COB complies with applicable grant terms related to assistance to the disadvantage. We recommend that existing circumstances be resolved by transferring employees to other units. We also recommend that the City Manager develop a policy on nepotism in City of Berkeley employment.

Response
This is a city-wide concern, and the finding should not be limited to HHS, but should apply to all departments where near relatives are working in the same unit. It is our understanding that the City Manager will be reviewing this matter with Labor, and that a policy directive will be forthcoming to address this concern.

HHS is not out of compliance with applicable grant terms related to assistance to the disadvantaged. All Youth Enrollee staff hired under the federal JTPA program are certified through the County's review and certification process. This is the City's assurance that the program is meeting the federal guidelines.

HHS 7. HHS Payroll Clerk Working From Home

Recommendations
We recommend that the Department Payroll Clerk not enter original hours, or hours adjustments, to the HTE Payroll System from home. We also recommend that primary source documents, such as time cards, should not be removed from COB premises.

Response
The Department's Payroll Clerk no longer works from her home, nor does she take any documents from the premises. If it is necessary for her to work additional hours to complete her assignments, she works from the worksite after obtaining approval from her supervisor.

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There is no longer a compliance problem in this area. Again, the Department has requested additional staffing to support payroll operations.

Conclusion: After a review of the audit recommendations, it appears that the internal auditors may not have had a clear enough understanding of HHS fiscal operations to fully support their findings, and that some of the findings may not apply at all. For example, the fact that HHS has adopted the use of Division/Activity codes in lieu of project codes to identify various staff activities indicates a unique payroll function in HHS that the auditors were not aware of.

In addition, based on a brief calculation it appears that there may be a disproportionate sample size selection applied to HHS (12%) when compared to other city departments (7%). For example, despite the fact that Public Works has more employees than HHS has, a mere 7% selection is made for the payroll transaction testing. A better alternative for future audits would be to simply apply a random sampling method to achieve a fair representation of the audit population.

To summarize, the Department's view is that payroll staff continues to provide adequate control in the HHS payroll processing system. Any changes on time sheets are approved and verified by supervisors, no overpayments have been made to employees, work is not being performed at home, nor are documents leaving the premises, leave records are being submitted by employees and the Department is awaiting City Manager policy direction regarding the employment of family members in the City workforce.

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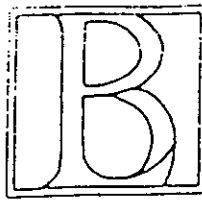
BERKELEY PUBLIC LIBRARY

Adelia Lines
Director of Library Services

TO: Ann-Marie Hogan, City Auditor

FROM: Robert Derbin, Departmental Administrative Officer

DATE: April 12, 1999

SUBJECT: <u>RESPONSES TO CITYWIDE PAYROLL AUDIT, MARCH, 1999</u>

On April 6, 1999, Robert Kalaluhi, Library Payroll Processor, and I met with Grant Bennett, CPA, Audit Manager, to discuss the Citywide Payroll Audit, as it relates to the Berkeley Public Library. Following are our responses to the various points presented in the audit. It was noted that the Library has 121 full time equivalent (F.T.E.) employees. This translates into approximately 200 people working (and timecards processed) per pay period.

1. **Time Card Not Signed by Employee**

Response: After discussion, it was decided that the supervisor would somehow annotate the time card to show that the employee was not available to sign his/her timecard.

2. **Timecard Not Signed by Supervisor**

Response: If the employee's own supervisor is not available to sign, another supervisor or manager would sign the timecard after the Library Payroll Processor has verified the hours.

3. **Facsimile Signature Stamps**

Response: Facsimile stamps will no longer be needed for timecards per #2 above. Administrative staff will keep facsimile stamps in locked drawers.

4. **Time Cards Taken Home by Departmental Payroll Clerk**

Response: We disagree with the opinion of the report suggesting an earlier cutoff time for timecard submission. The very structure of Library staffing, seven days per week at Central, six days at the Branches and the use of many part-time staff, dictates that timecards be submitted as close to the end of the pay period as possible.

Since Library Administration moved to temporary quarters and City Information Systems moved the Central Library server, the Library Payroll Processor has not worked at home. Instead, he has worked alternate Saturdays at 2150 Kittredge. However, we would like to keep the option of the Payroll Processor inputting payroll information from home available. Library Administration believes that it can address and resolve any concerns about security issues.

Thank you.

Cc: Grant Bennett
    Adelia Lines
    Margaret Bush
    Robert Kalaluhi

Central Library • 2090 Kittredge • Berkeley, CA 94704 • 510/644-6095 • FAX 510/845-7598

CITY OF BERKELEY
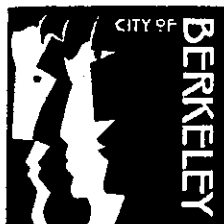
Department of
Parks and Waterfront

DATE: March 31, 1999

TO: Grant Bennett, Audit Manager

FROM: Tracy A. Vesely, Senior Management Analyst

SUBJECT: <u>Citywide Payroll Processing Audit: Written Comments</u>

I have reviewed the Citywide Payroll Audit report dated March 1999. As indicated in Chapter 6 of the report, the audit revealed two (2) payroll errors in the Parks and Waterfront Department sample. Below is a response to each error.

1. <u>Time Card Changes Not Approved by Supervisors</u>
   Discovery: The audit discovered that "in two sampled cases, the supervisor had not initialed time card changes to evidence that they had been seen and were correct."

   Response: The two identified errors were immediately corrected upon discovery. The Parks and Waterfront Department, pursuant to City of Berkeley policy, requires that changes to time cards must be initialed/authorized via e-mail by an employee's supervisor.

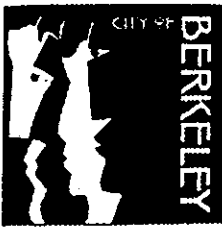2. <u>Overtime Authorization Not Documented</u>
   Discovery: The audit discovered that in one sampled case, "although a supervisor indicated that overtime worked was approved, no support documentation was available to show that the overtime had been approved in advance."

   Response: The identified error was immediately corrected upon discovery. In compliance with the Payroll Manual, The Parks and Waterfront Department requires the completion of Overtime Authorization Forms for all anticipated overtime work. The authorized forms must accompany submitted timecards.

The department has addressed the errors identified through the audit and it is our hope that future errors will be avoided as a result of this review. Thank you for your assistance.

Cc: Lisa Caronna, Director of Parks and Waterfront
    Jan Gibson, Supervising AOAII
    Artie Johnson, AOAII – Payroll Clerk

F:\MARINA\ANALYST\ADMIN\AUDITS\Payroll.doc

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e-mail licl@.ci.berkeley.ca.us

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Planning & Development Department

DATE: **April 16, 1999**

TO: Ann-Marie Hogan, City Auditor

FROM: Elizabeth Epstein, Planning & Development Director

RE: **Response to Corrected Payroll Audit Findings and Recommendation**

We concur with the revised finding and recommendation of the payroll audit for Planning and Development. The finding and the new procedure of requiring initialing of timecard changes and not using 'whiteout' were discussed at the department administrative staff meeting. Instructions on complying with the new procedure were e-mailed to all staff. The payroll clerk will ensure that time card changes are in compliance with this requirement.

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E-mail: planning@ci.berkeley.ca.us

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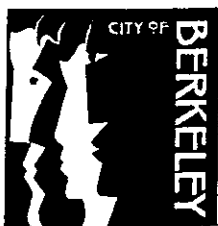
City Auditor's Office

April 21, 1999

TO: Memo to File

FROM: Grant Bennett, Audit Manager

Subject: **<u>PAYROLL PROCESSING AUDIT - HOUSING DEPARTMENT</u>**

No findings or recommendations were developed from our review of Housing Department payroll processing.

CITY OF BERKELEY

Office of the City Auditor

April 21, 1999

TO: MEMO TO FILE

FROM: Grant Bennett, Audit Manager

Subject: **PAYROLL PROCESSING AUDIT - RENT STABILIZATION BOARD**

We noted that a supervisor had not signed an employee time card in one case reviewed.

Rent Stabilization Board management responded as follows:

"Thank you for your memo. We noted your comment on the Citywide Payroll Process Audit regarding the Rent Board. We usually have the supervisor sign the time cards. The case you pointed out was a student intern who turned in her all her timecards late to Athena. She signed the cards in the wrong place. Carlos Rios confirmed her hours and Athena signed for her.

We understand that we shouldn't have done it this way, and won't let this happen in the future."
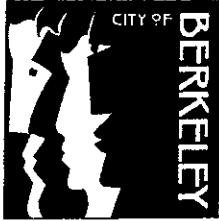
1947 Center Street, Berkeley, CA 94704 Tel: 510.644.6440 TDD: 510.644.6915 Fax: 510.644.6434
E-mail: hogan@ci.berkeley.ca.us

Office of the City Auditor

April 21, 1999

TO: MEMO TO FILE

FROM: Grant Bennett, Audit Manager

Subject: **PAYROLL PROCESSING AUDIT -CENTRAL ADMINISTRATION**

We noted one instance where an overtime authorization was not filed with a time card.

The Departmental Payroll Clerk responded to the draft audit report item as follows:

"The bottom line in this case was that no overtime slip was turned in with the time card, which does not mean that one was not done. I should have contacted the department and requested it when I was processing the time card. Since the time card was signed with the overtime on it, I did not find it necessary at that moment to have the overtime slip in order to process that time card since we are working on a deadline from the time we receive the time cards. I also feel that it is not that important for me, the payroll clerk, to even receive the overtime slip as long as the department has it signed and on file in their office and as long as the overtime is posted on the time card and the time card is signed by the employee and the supervisor."

4/27/99

CITY OF BERKELEY

Ann-Marie Hogan
City Auditor

DATE: April 14, 1999

TO: Grant Bennett - Audit Manager

FROM: Brian Zandipour - Deputy City Auditor for PR Management

SUB: Response to Payroll Audit of January 1998

PAY1:

I agree with your recommendations of limiting payroll access for employees who do not need access to the other Auditor's assigned departments. Three Auditors need to have access to all departments due to additional responsibilities given to them. The first employee reviews all the Employee Transaction Forms for accuracy, sets up wage garnishments, SDI coordination and tax withholding. The second employee is responsible for the City's deferred comp, SRIP I,II &III, credit union deductions, and life insurance. A third employee is responsible for the City employee's health insurance setup.

Per your recommendations, I will discuss with the Information System Department the feasibility of limiting payroll access for the other two auditors to their assigned departments, except in case of vacation or absence.

PAY2:

I agree with your recommendation of updating the list of authorized individuals who can sign time cards. Such a request will be sent to all departments by 5-31-99.

PAY3:

We may not be able to fully implement your recommendation to design an e-mail form to report common errors to payroll clerks until everybody has uniform computer systems. Many employees are still using DOS operating systems while others are using WINDOWS operating systems. The two systems are not mutually compatible. After this year's planned city wide computer upgrade, we will discuss this recommendation with payroll CSI and payroll clerk supervisors.

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CITY OF BERKELEY

Ann-Marie Hogan
City Auditor

Currently, time card payroll errors are communicated with payroll clerks via e-mail, fax and/or telephone. Errors are corrected either by fax from the payroll clerk, or by the payroll clerk initialing the changes on the original time card in the Auditor's office. Payroll clerks are responsible for notifying the employee and his/her supervisor of the changes to the time card. We have had several meetings with payroll clerks regarding this subject and believe improvements have been made since you completed this audit.

PAY4:

I am very much in favor of adopting your recommendation of replacing the current time card system with a more advanced state of the art electronic system. Initially it would cost money to buy such a system, but ultimately the City would save money and time by not duplicating efforts in preparing and entering time card data.

By June 30, 1999, I will complete a survey of electronic time keeping software to evaluate the possibility of their use in the City. The City Manager/Budget Office would need to assign resources for the implementation of this recommendation.

Additional recommendations re: time cards from payroll manager

City employees can be classified based on two broad categories. 1- Exempt employees who are not entitled to over-time pay, but who receive administrative leave annually (149 employees), and 2- Non-exempt employees who are entitled to over-time pay.

Currently, all City employees are required to submit time cards to their departmental payroll clerks for payroll processing purposes. Time cards include information on the number of hours and date worked, vacation, sick leave, any other kind of leave used, higher class rates of pay, and sometimes budgetary information.

In order to reduce the workload for Payroll Clerks and at the same time save money for the City, I recommend that we eliminate the need for exempt employees to submit time cards. These individuals should submit time cards (or other form of notification) only when they are not working their normal schedule such as when using vacation hours, sick leave and such. Details can be worked out with Personnel and IS departments.

CITY OF BERKELEY

Ann-Marie Hogan
City Auditor

PAY5:

The HTE payroll system is designed to maintain historical data for employees. Therefore, we can not delete codes from the payroll system to simplify the operation.

I do agree with you that it is extremely difficult and tedious to remember the different sets of rules that apply to each MOU. More uniform MOUs can tremendously help to reduce errors and labor code usage. Attached is a copy of my memo dated 3-10-99 to the Audit manager regarding this issue.

Two weeks ago, the City manager was asked by the City Auditor to consider simplifying the MOUs by renegotiating a more uniform MOUs with all bargaining units. The City Manager has requested additional information to determine his course of action.

PAY6:

The payroll subcommittee is in the final stages of completing the payroll manual. A recommended version will be sent to Department Directors and CSI group by May 31, 1999. The final revision should be completed by June 30, 1999. It is our intention to keep this important document up to date and we will ask the sub committee to revise the manual annually.

CITY OF BERKELEY

Ann-Marie Hogan
City Auditor

TO: Grant Bennett, Audit Manager

FROM: Brian Zandipour, Deputy City Auditor for Payroll Management

DATE: March 10, 1999

SUB: Payroll Expanding Too Fast

On the subject of <u>where we are headed with diverged MOUs.</u> I would like to look at this problem from three perspectives.

1- Its effect on HTE payroll system
2- Its effect on payroll staff
3- Its effect on employees

1- The City of Berkeley is famous for its complex payroll system. This complexity comes from our diverged MOUs. The HTE system that the City originally purchased in 1995, which was in use by many other cities, was not sufficient to handle our complex payroll needs. In order to process payroll, the Information Systems Department has written over 300 additional modifications to the original HTE system. Some of these modifications have been costly since the City has had to pay HTE to help writing the programs. In addition, the IS Department must maintain these modifications so they function when we run payroll. These modifications often create headaches and produce incorrect payroll results if they are not watched closely. In particular, numerous errors are identified each year after payroll upgrades, but it is difficult to determine whether they are software bugs or programming errors.

2- In order to meet the requirements of MOUs, our payroll system has been set up with over 360 labor codes classified as follows;

- 133 codes for HOURS TYPE, i.e., regular hours, over time hours, Comp time, ...
- 61 codes for ADD PAYS, i.e., shift differentials, uniform and shoes allowance, ...
- 55 codes for BENEFITS, i.e., Kaiser 790, Dental, PERS, SRIP, PARS, WC,........
- 70 codes for DEDUCTIONS, i.e., union dues, comb charity, levy, ...
- 42 codes for ABT (ADJUSTMENT BEFORE TAX), i.e., deferred comp, dependent care,......

Approximately, 15 payroll clerks and 6 payroll auditors process payroll for the City. Knowledge is

Ann-Marie Hogan
City Auditor

the key in producing correct checks. Payroll clerks are expected to know approximately 75% -80% of the above codes as they apply to their specific departments. Each Payroll Auditor needs to know about 90% of the above codes for auditing his/her sections. Remembering all these codes and the differences among various unions in respect to pay type is a cumbersome task. There are many exceptions for each union group, which can be confusing, hard to remember and prone to cause errors which must then be adjusted.

3- Fairness is an issue. I think employee moral and sense of fair play is strengthened by employees having the same benefits across the board.

Accuracy and efficiency are also served by having the same rules and benefits for all. A simpler payroll is easier to audit and monitor. This has a cost saving aspect, too. Simpler and easier is more efficient, takes less time to audit, less space to write out, less time to explain, less computer space to run.

One set of rules and benefits also means that general employee understanding of benefits and payroll processing will increase. There will be a greater shared knowledge and familiarity with payroll and benefits. Employees can better help each other out with payroll questions, information and concerns. This too would improve employee morale.

It also seems possible that the negotiating process could be streamlined if the MOUs converged instead of diverged. Hopefully, anyway.

Additionally, it is a better use of public funds, and better serves the public interest also, to have less divergent MOUs. It also serves as an antidote to special interests, to individual union negotiators with special agendas, and city negotiators with special biases.

CC: Ann-Marie Hogan, City Auditor
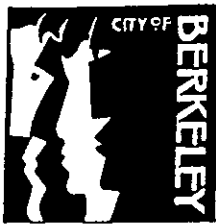
Personnel Department

Date: April 12., 1999

To: Ann-Marie Hogan, City Auditor

From: Ron Brown, Director of Personnel

Re: **Response to Citywide Payroll Processing Audit Recommendations**

This responds to the recommendation contained in Chapter 12, PER 1 and PER 2, of the Citywide Payroll Processing Audit.

PER 1 Inconsistent Administrative Components in Memoranda of Understanding:

This finding recommended that the City Manager give high priority to making language in the Memoranda of Understanding (MOU) uniform. It also recommends that MOU revisions to provide uniformity in payroll processing begin immediately through negotiation and issuance of side letters.

The audit report is correct in making the generalized statement that there are inconsistent provisions that address common practices pertaining to benefits and terms and conditions of employment. However, it must be recognized that the interests of each bargaining unit, and the interests of the City with respect to each bargaining unit, are different. Some level of inconsistency in similar contract provisions among the several labor agreements is inevitable within a collective bargaining process. Each union is responsible for determining which issues they choose to address in bargaining and part of that process is receiving input, typically through written surveys, from the membership. The bargaining team, which is selected according to the bylaws of the union usually in some form of democratic process, prioritizes the issues raised by the membership and determines which issues are more important than others. During bargaining all issues are discussed in some form or fashion and are disposed of either by adding or modifying contract language, by resolution of the underlying issue through an agreement on how existing contract language is to be interpreted, by discussion of the issue but with no change in the contract, or by a decision to drop the issue. The course and conduct of bargaining determines how issues are resolved by the parties. The collective bargaining process requires both parties to compromise in order to reach an agreement which both parties can recommend to their respective constituency. The fundamental responsibility of management negotiators is to protect the financial and operational interests of the City. Unfortunately, as a cursory examination of the Memoranda of Understanding will reveal, it appears that previous management negotiators did not always understand their responsibility to protect the City's rights and interests.

The collective bargaining process involves a balancing and tradeoff of interests, issues and priorities. The

interests, issues and priorities of each bargaining unit are different. The City has seven separate bargaining units each with their own community of interests. To suggest that benefit provisions and terms and conditions of employment be essentially uniform across all bargaining units does not give weight to the human dynamic and the differing interests, issues and priorities of the unions. To illustrate this point, the recent issue of the" project based positions" and the distinctly different approaches to the issue taken by Local 790 and Local 535 is instructive. The City was able to attain a good negotiated outcome with Local 790 relatively early in negotiations. The agreement provided the City with a high level of flexibility in employing persons in "project based positions" in a manner that is simple to administer. Conversely, the discussions with Local 535 on the same issue were protracted, somewhat confrontational, and ended in a compromise solution that each party can tolerate but is not either party's preferred outcome. In the jargon of Interest Based Bargaining, it is the best alternative to no agreement. It is our judgment, that the City is better off with the agreement we reached with Local 535 than with no agreement on the issue.

The audit recommendation raises a fundamental question of what drives the collective bargaining process. Management negotiators are cognizant of how difficult it is to administer some contract provisions from an operational and payroll perspective. We have regularly included at least one operational person on the management negotiation team. During the last several negotiations, the Employee Relations Officer also consulted with the payroll manager on matters having to do with compensation and benefit issues. If a proposal was too complex or impractical to administer, the Employee Relations Officer communicated this at the bargaining table and rejected the proposal. However, we must recognize that labor relations policy is ultimately determined by the City Council acting on the advice of the City Manager. It is not uncommon to receive labor relations policy direction that is burdensome or difficult to administer, but which we must attempt to negotiate and ultimately implement. The retiree medical program, originating with the Police Association in 1989 and culminating in the most recent agreement with the miscellaneous employees is an example of the impact of labor relations policy which resulted in different benefit designs.

In regard to recommendation PER 1, we were unclear as to the specific inconsistencies in provisions which address common practices that are found to be onerous for payroll administration. In order to better understand the issue raised in the audit recommendation, we would request a short list (no more than five) of the conflicting or different contract provisions which are the source of this conclusion.

Finally, the audit recommendation concludes with saying that, in order to provide uniformity in payroll processing, negotiations should begin immediately on side letters to implement such changes. Leaving aside work program priorities, there is a "zipper" clause in each labor agreement which precludes one party to the agreement from compelling negotiations on subjects contained in the collective bargaining agreement during the term of the collective bargaining without mutual consent. Opening negotiations, also means that all subjects within the scope of representation contained in the contract are once again on the table and can become the subject of bargaining.

PER 2 Employee Transaction Forms Data Base:

The finding recommended that Personnel management consider automating the entire ETF process.

On the face of it, automation is very attractive, particularly if it eliminates redundant activities. With that interest in mind, we have examined the HTE system as a means of automating the Employee Transaction process. Our goal was to reduce the redundant key entry effort in the current system. However, as the HTE payroll system is designed for centralized data entry, it is incompatible with the current City system which

relies on distributed responsibility for creating the official status change document (the ETF) for existing employees and for temporary new hires in the Library and the HHS Recreation Programs. Under the present HTE system, there is no way to enter the data in suspension, pending approval by the Personnel Department. Therefore, data entry can only take place after the recommended action has been approved. Further, the current automated form which is available from HTE does not provide for the type of documentation required by the City's Employee Transaction Form. This form is the official City employment document subject to subpoena, review by the EEO Officer, or the City Attorney, in the event of an employee grievance or litigation. It is critical that the information on that form provide an audit trail of employment actions, the basis of which are clear to the employee and others who may have need to examine the record.

The fact is that even if the form could be electronically produced, every form would need to be printed to document the new hire terms and conditions or the change in classification or status, with a copy given to the employee and preserved in the official personnel file, for review by the employee. Therefore, every document would need to be printed in duplicate, at least, which would eliminate the efficiencies gained by electronic processing. In summary, we do not agree with the recommendation as it would not save staff time nor meet the needs of the City. We had already given serious consideration to using an electronic form in the interest of reducing data processing effort, but the current HTE system is not adaptive to our needs.

cc: Dave Hodgkins, Employee Relations Officer
        Nicki Spillane, Deputy Director of Personnel
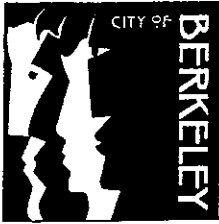
Office of the City Auditor

April 21, 1999

TO: MEMO TO FILE

FROM: Grant Bennett, Audit Manager

Subject: **PAYROLL PROCESSING AUDIT - INFORMATION SYSTEMS OFFICE RESPONSE**

Information Systems Office management responded to four findings and recommendations as follows:
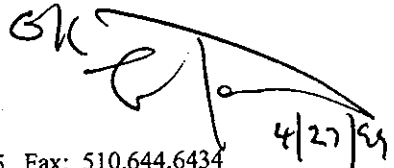
"PAY3. We'll be happy to design an e-mail form once Microsoft Outlook is established as our new e-mail client. Target date: October 99.

PAY4. I believe the HTE system can handle direct on-line timecard entry. We should first examine this option before looking at alternatives. An interdepartmental group should investigate and report back.

SYS1. We will have to evaluate the technical feasibility. Target date for answer to this question: June 99.

SYS2. IS agrees with the caveat that we're talking about a very small sum of money."

SYS3. "We agree with the recommendation. Even though the report is showing hours as they are stored by the HTE system, we will look at the possibility of masking out the hoursthat are associated with add pays from the labor distribution report by the end of June, 1999."

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