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GENERAL PAYROLL PROCESSING

OKLAHOMA CITY FIRE DEPARTMENT PAYROLLS

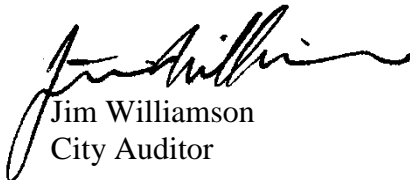## FOLLOW-UP ON PREVIOUS RECOMMENDATIONS

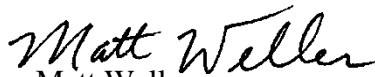## NOVEMBER 1, 2011

November 1, 2011

The Mayor and City Council:

The Office of the City Auditor has completed an audit of certain payroll-related controls and operations. Based on the results of our audit, we believe that:

- Controls were reasonably adequate and effective to ensure Citywide payroll-related responsibilities were appropriately segregated as of May 3, 2009, except for selected Kronos self-edit controls.

- OCFD payrolls were materially accurate, complete, valid and in compliance with applicable payroll-related regulations for the fiscal year ended June 30, 2010.

- Previous recommendations in our audit report dated May 20, 2008 have been substantially implemented or addressed as of June 30, 2011.

All comments, recommendations, suggestions and observations arising from our audit have been discussed in detail with appropriate representatives from management. These discussions were held to assure a complete understanding of the content and emphasis of items in this report. Responses to this report from management are attached.

Jim Williamson
City Auditor

Matt Weller
Assistant City Auditor

Brett Rangel
Audit Manager

AUDIT OF GENERAL PAYROLL PROCESSING AND OCFD PAYROLLS

AUDIT BACKGROUND, SCOPE, AND METHODOLOGY

The objectives of this audit were to:

- Evaluate the adequacy and determine the effectiveness of controls established to reasonably ensure payroll-related responsibilities were appropriately segregated as of May 3, 2010.

- Evaluate the adequacy and determine the effectiveness of controls established to reasonably ensure Oklahoma City Fire Department (OCFD) payrolls processed during the 12 months ended June 30, 2010, were accurate, complete, valid, and in compliance with applicable payroll-related regulations.

- Evaluate the status as of June 30, 2011, of recommendations and management responses included in our previous audit report dated May 20, 2008.

During FY 2010, the City's Payroll Division processed over $279 million of checks, including $77 million (28%) paid to 995 OCFD employees at over 40 locations. However, certain payroll-related responsibilities (e.g., new hire and termination processing; timecard edits and approvals; incentive pay administration; check processing and distribution; contract negotiation and monitoring; etc.) are decentralized across several City departments and involve the Kronos timekeeping (Kronos) system and PeopleSoft Human Resources (PeopleSoft HR) system, both of which have complex security settings.

Our last payroll audit focused on centralized payroll processes. In this audit we assessed system authorizations and settings impacting segregation of payroll-related responsibilities across all City departments and we specifically examined OCFD payrolls. We did not audit segregation of responsibilities not directly related to payroll processing; nor did we examine payrolls for City departments besides OCFD.

Procedures performed during this audit included interviews of management personnel; reviews of relevant federal regulations, arbitration rulings, labor agreements, City and departmental policies, and other relevant guidelines; analysis of OCFD check details; examinations of personnel files and schedules; reviews of Kronos and PeopleSoft HR system setup, processes, and employee profiles; and reviews and analysis of payroll-related authorization processes, controls and settings.

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

The following sections of this report include recommendations intended to provide constructive suggestions for improving segregation of payroll-related responsibilities across all City departments and the accuracy and completeness of OCFD payrolls; as well as a status of prior audit recommendations. Each recommendation and status included in this report is immediately followed by *management's response*. *Management's responses* are attached to this report in their entirety.

RESULTS OF WORK PERFORMED

SEGREGATION OF PAYROLL-RELATED RESPONSIBLITIES

Results of our audit indicate that, as of May 3, 2010, management controls were reasonably adequate and effective to ensure payroll-related responsibilities were appropriately segregated, except for selected Kronos self-edit controls.

Management is responsible for establishing a system of internal control, which includes an appropriate segregation of payroll-related responsibilities. Segregation involves division of responsibilities to promote an appropriate level of independent reviews and approvals. Hence, the authority and system accessibility to hire or terminate employees; edit, review or approve timecards; process and distribute payments (e.g., checks, payment cards, or direct deposits); verify and reconcile payrolls; etc. should generally be assigned to different departments, divisions or employees, as appropriate.

Kronos Self-Edit Controls

Several Kronos employee account profiles were not set up or periodically assessed to prevent self-edits and/or approvals of timecards and leave balances without an independent review.

Kronos employee timecard access is generally controlled through the assignment of licensing, views, and one of 38 Function Access Profiles (profiles). The licensing and view determines which timecards may be accessed, while the profile settings determine what may be done to those timecards. The option to prevent self-edits and/or approvals of timecards and accrued leave balances are critical settings within profiles.

A significant number of employees were assigned profiles with the ability to perform self-edits and/or approvals of timecards without an independent review. Some of these employees were payroll officers who may also be responsible for detecting erroneous or unauthorized timecard edits by comparing hours approved in Kronos to hours paid in PeopleSoft HR (e.g., PeopleSoft HR Hours to Gross Report reviews).

Self-edits and/or approvals of timecards could result in undetected errors or fraudulent payments. See Table 1 below.

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Table 1. Risk of Undetected Errors or Fraudulent Payments	High	High	High	High	Med	Med
Number of Profiles Allowing: 23[A]	2	2	4	2	9	4
Edit Own Timecard After Another's Approval	✓	✓	✓	✓	✓	✓
(Edit &) Apply Manager Approval on Own Timecard	✓	✓	✓	✓	✓	✓
Remove Approval (& Edit) Own Timecard	✓			✓		
Remove Signoff (& Edit) Own Timecard	✓	✓		✓		✓
(Edit &) Signoff Own Timecard	✓	✓	✓			
Number of Assigned Employees: 930[A]	13[B]	142	8	5	749	13
Payroll Officers Who May Also Review the Hours to Gross Report	0	6	1	1	55	2

[A] These totals include as many as 24 known Trust employees in 6 profiles.   Since some profiles are shared by City and Trust employees, the actual number of affected Trust employees may be more than 24.

[B] Includes 4 employees using a shared secondary superuser account, which does not require an assigned profile.

A significant number of employees were also assigned profiles allowing self-edits of leave balances. Certain leave balance edits can be detected by reviewing the PeopleSoft HR Hours to Gross report; and some of these employees were also payroll officers who may be responsible for reviewing this report.

Self-edits of leave balances could result in erroneous or fraudulent leave balance edits or payouts. See Table 2 below.

Table 2. Risk of Erroneous/Fraudulent Leave Balance Edits/Payouts	High	High	High	High	High
Number of Profiles Allowing: 19[A]	1	1	3	4	10
Perform Historical Edit/Reversal of Own Prior Leave Usage	✓	✓	✓	✓	✓
Reset or Update Own Accrued Leave Balances	✓	✓	✓	✓	
Move Accrued Leave Balances (e.g., Sick to Vacation)	✓	✓			
Process Dollar Payout of Own Leave Balances	✓		✓		
Number of Assigned Employees: 414[A]	5[B]	2	8	24	375
Payroll Officers Who May Also Review the Hours to Gross Report	0	1	0	6	56

[A] These totals include as many as 16 known Trust employees in 4 profiles. Since some profiles are shared by City and Trust employees, the actual number of affected Trust employees may be more than 16.

[B] Includes 4 employees using a shared secondary superuser account, which does not require an assigned profile.

In some instances, the assignment and use of dual accounts (including shared superuser accounts) allow employees to override the self-edit control in an otherwise appropriate profile setting; and in some end-user views, profile settings may not allow self-edit controls. However, in most instances, assessment of self-edit capabilities had been overlooked when designing profiles to meet departmental needs. Additionally, Kronos profile reports and system interfaces do not allow an efficient or effective review of the 38 existing profiles, each including approximately 400 profile settings.

Recommendation (1)

The Finance Department (Finance), Personnel Department (Personnel) and the Information Technology Department (IT) should work together to develop an efficient and effective approach for periodically reviewing and revising critical profile settings to prevent employee self-edits and/or approvals of timecards and accrued leave balances. The self-edit profile settings and dual accounts referenced above should be corrected. Also, currently unassigned

profiles should either be purged (if not needed) or assessed for self-edit risks prior to future assignment to employees.

In the event preventive self-edit controls are impractical for certain employees due to Kronos system limitations or reasonable departmental needs, exception reports and procedures allowing efficient, effective, and independent reviews of timecards and accrued leave balances for those employees should be developed.

Combined Finance, Personnel and Information Technology Response

Agree with the recommendation. The Finance Department, Personnel Department and Information Technology Department will work together to develop a procedure that will provide for a periodic review of profile settings and staff assigned to profiles that will enhance prevention of self-edits and self-approval of timecards and leave balances. Since this will require significant effort, we will implement this process by September 30, 2012.

PeopleSoft HR Segregation and Self-Edit Controls

An unknown number of employees have access to PeopleSoft HR generic usernames allowing unauthorized self-edits and/or the ability to make unauthorized changes to both employment and pay data.

PeopleSoft HR usernames generally prevent unauthorized self-edits (e.g. pay rate changes); while username-assigned roles established by Personnel and Finance generally ensure segregation of employment and payment data entry (e.g. adding employees, setting compensation, initiating or routing payments). However, we identified one assigned username allowing an IT employee to bypass established segregation controls and 68 generic usernames (retained or created since PeopleSoft HR delivery) allowing an unknown number of employees to bypass established self-edit and segregation controls.

Of the 68 generic usernames identified:

		The creation of employee profiles or use of generic usernames effectively bypassing self-edit and segregation controls results in a loss of accountability and the potential for unauthorized self-edits and erroneous/fraudulent employment and payment activity.
65	usernames could be used by an unknown number of users. Seven (7) of the usernames, by themselves, would allow users to add new employees. Five (5) of the usernames would allow users to grant unlimited system access to themselves or to others.	
3	usernames may be used by six (6) IT employees able to bypass segregation and self-edit controls and one (1) contractor able to bypass segregation controls.	

Though IT considers some generic usernames necessary to allow system developer deployment of programming changes in PeopleSoft HR, the City's external auditor identified such access to the PeopleSoft Financial System as a "material weakness"[1] during their last audit.

RECOMMENDATION (2)

IT, in consultation with Personnel, should ensure removal of all PeopleSoft HR generic usernames to the extent practical. When removal is not practical, system logs or exception reports targeting generic usernames and/or employees[2] able to bypass established self-edit and segregation controls should be created and reviewed by non-targeted employees.

Information Technology Response

Agree with the recommendation. By December 31, 2011, Information Technology Enterprise Team will remove PeopleSoft HCM generic usernames to the extent practical. Where generic accounts are necessary for the system function, a mechanism for log review and exception reporting will be identified.

Payroll and Employment Process Segregation

Procedures and forms used for authorizing the performance of various payroll and employment-related processes were not designed to ensure an appropriate level of segregation.

Authorized Signature Lists are used to identify employees responsible for authorizing personnel actions (e.g., terminations), handling checks, manually approving timecards, etc. Kronos and PeopleSoft HR authorization forms are used for granting system authority to approve and signoff electronic timecards, edit employees' direct deposits, etc. Manual direct deposit authorization forms may also be submitted via interoffice mail (without verification of identity) to instruct the Finance Department (Finance) to edit direct deposits.

Although Authorized Signature List instructions appropriately encourage a line of segregation between Kronos *timecard approvals* and *check handling*, existing forms and procedures do not adequately encourage segregation between timecard approvals/final signoffs or final personnel action form authorizations and:

- Direct deposit editing (in lieu of check handling), directly through PeopleSoft or through submission of manual authorization forms.

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[1] BKD, LLP's *Independent Accountants' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Accounting Standards* for the fiscal year ended June 30, 2010 reported this as a "material weakness." IT confirmed the same finding would apply to the PeopleSoft HR system and that fully addressing the issue is not practical without additional personnel.

[2] Targeted usernames should include all generic usernames retained, all personal usernames of those with access to generic usernames, and all personal usernames of those whose single account does not prevent access to both employment and payment data entry.

- Post-processing reviews of the PeopleSoft HR Hours to Gross Report.

In a sample of five (5) departments reviewed, we noted 19 employees who have the ability to authorize personnel actions (e.g., employee new hires or terminations), edit and approve Kronos timecards, and handle checks. One of the employees was a payroll officer who may also be responsible for reviewing the PeopleSoft HR Hours to Gross report used to verify payroll processing (i.e., may verify his/her own work).

Allowing employees to authorize activities (e.g., personnel actions and/or timecard approvals) *and* to handle payments or review activity could result in erroneous or fraudulent payments to terminated or fictitious employees, especially in larger, decentralized departments with many part-time employees.

Recommendation (3)

Finance, in consultation with IT and Personnel, should redesign authorization forms and procedures to ensure appropriate segregation of departmental payroll and employment-related responsibilities and subsequent periodic reviews. Appropriate segregation should reduce or eliminate the risk of a single employee having the ability to effectively generate, approve, receive and conceal payments to terminated or fictitious employees. The red line in Table 3 delineates a reasonably simple segregation between basic processes.

Table 3. Basic Process Segregation

Some May	Authorize Personnel Actions (e.g., terminations)	One of These & One of These	None May Perform
	Approve Kronos Timecards		
	Signoff Kronos Timecards		
Others May	Handle Employee Checks		
	Edit Employee Direct Deposits		
	Review PeopleSoft HR Hours to Gross Report		

Adopted segregation forms and procedures should provide a clear delineation of incompatible responsibilities for those requesting, setting up and periodically reviewing employee authorizations and access (i.e., system profiles, roles, etc.).

Additionally, employee identification should be verified for those employees submitting manual direct deposit authorization forms by personnel not responsible for departmental personnel actions or timecard approvals.

Finance Response

Agree with the recommendation. The Finance Department will work with IT and Personnel to redesign the authorization forms and procedures to ensure segregation of duties related to system security. We will implement this process by September 30, 2012. When employee verification of manually submitted direct deposit authorization forms is not practical, we will establish procedures to ensure the validity of such request. We will implement this process by March 31, 2012.

Timecard and Pay Data Security

System-generated files containing payroll timecard and payment data were not adequately secured.

Kronos timecard data files containing hours exported to and paid in PeopleSoft HR and payment data files (i.e., positive pay and direct deposit) transmitted to the bank were stored with unrelated files in a network folder accessible by more than 65 employees. File security was not adequately considered when assigning file locations and permissions.

Unrestricted access to timecard and payment data files could result in undetected, fraudulent manipulation of timecard hours and/or related payments.

Recommendation (4)

Finance should work with IT to restrict payroll data file access to those needing the data. Though responsibilities for file handling, processing, and reviewing are reasonably segregated, complete automation of bank transmissions, which further reduces the risk of data manipulation, should also be explored.

Finance Response

Agree with recommendation. Finance will request that I.T. establish a run control that creates the files during the regular payroll processing steps of payroll staff and places the resultant files in a secure location. Finance will implement procedures where manipulation would be ineffective due to segregation of duties. Finance will implement this process by March 31, 2012.

Information Technology Response

Agree with recommendation. Upon receipt of Request for Change submitted to I.T. Service Desk by Finance, I.T. will follow prioritization process and work with Finance to complete the request. I.T. will look at enforcing strict access controls to these file locations as well as Event Tracker capabilities to log file creation and modification activities. Proposals will be made to the Auditor's Office to determine if controls are sufficient. The implementation of proposed options is expected to be complete by March 31, 2012.

Other Issue

Untimely employee terminations resulted in assigned, but unused Kronos licenses and unnecessary risk of fraudulent payments.

While assessing the appropriateness of timecard access (Kronos licensing) relating to Recommendation (1), we identified approximately 68 licenses assigned to terminated employees. These licenses were not released because related terminations were processed *after* a 30-day window, in which PeopleSoft HR automatically updates employee statuses in Kronos (and releases the related licenses). Approximately 20% (or 247) of the terminations processed during FY 2010 were not submitted or entered within this 30-day window; 99% relating to part-time employees.[3] Because some terminations may have not yet been submitted and entered into PeopleSoft HR, the actual total number of untimely terminations was difficult to determine.

Licenses assigned to terminated employees remain assigned, but unused. Additionally, the risk of fraud associated with inadequate segregation of payroll and employment processes addressed in Recommendation (3) is enhanced by retention of terminated employees on the PeopleSoft HR and Kronos systems.

Recommendation (5)

Personnel should work with IT to increase the timeframe during which the automated PeopleSoft HR process updates Kronos employment statuses and related license availability to at least 90 days. Remaining erroneous Kronos termination statuses should also be identified and corrected.

Though appropriate segregation reduces the potential for fraudulent activity, Personnel should also consider automatically setting employee accounts without activity for a period of time to an inactive status.

Personnel Response

Agree with recommendation. This recommendation has been implemented for all City employees. The Personnel Department will contact the Trusts by December 31, 2011 to request process changes to fully implement the recommended change.

Information Technology Response

Agree with recommendation. Automated process update has been set to 90 days.

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[3] Of these 247 terminations, 31 related to City employees while 216 related to Trust employees. IT representatives confirmed PeopleSoft HR does not update Kronos when entered into PeopleSoft HR after 30 days. However, for the 179 instances (i.e., 247 untimely terminations less 68 not reflected in Kronos) when the employee statuses in Kronos had been updated and the related Kronos licenses released, IT could not determine how this occurred.

OCFD PAYROLLS

Results of our audit indicate that, during our audit period, management controls were reasonably adequate and effective to ensure OCFD payrolls were materially accurate, complete, valid and in compliance with applicable payroll-related regulations.

The federal Fair Labor Standards Act (FLSA) governs the payment and computation of minimum wages and overtime. OCFD payrolls are more specifically governed by negotiated Collective Bargaining Agreements (CBAs), related memorandums of understanding (MOUs), and labor arbitration rulings; City and departmental policies and procedures; and the results of employee grievances (■).

Therefore, a system of payroll compliance involves proper interpretations (■); adequate policies and procedures (■); proper system set up (■) and use (■); and periodic monitoring (■)… all consistent with applicable FLSA, CBA and other

Exhibit 1. Payroll Compliance System

requirements. Exhibit 1 illustrates the relationship of these system components around compliance; while Table 4 below generally depicts the division of payroll compliance-related responsibilities.
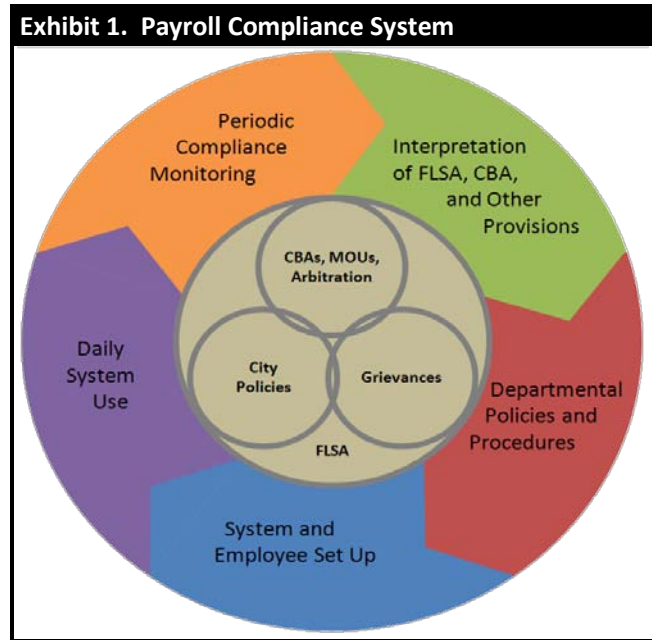
Table 4. Division of Payroll Compliance-Related Responsibilities	OCFD	Finance	Personnel	Municipal Counselor	IT
■ Interpretation of FLSA, CBA, & Other Provisions	✓		✓	✓	
■ Departmental Policies and Procedures	✓				
■ System/Employee Set Up	✓	✓	✓		✓
■ Daily System Use	✓	✓			
■ Periodic Compliance Monitoring	✓	✓	✓		

Timecard exceptions – such as leave usage, scheduled or unscheduled overtime or compensatory time – are manually processed and entered into Kronos. Scheduled overtime is built into the regular 27-day (216-hour) work cycle of all 24-hour shift employees. Each 27-day work cycle includes 12 scheduled overtime hours (above the 204-hour FLSA threshold). Scheduled overtime hours are reduced by sick, injury, and all other leave time not specifically negotiated as "worked" in the CBA.[4] Therefore, the recording of leave time impacts the

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[4] The CBA specifies certain leave types such as vacation and holiday as "worked" for purposes of calculating scheduled overtime. All other leave is considered not "worked" and therefore reduces scheduled overtime hours.

accuracy and completeness of overtime payment calculations. In accordance with the CBA, OCFD employees also receive unscheduled overtime pay at a rate of time and one-half (1 ½) for any hours worked outside regularly scheduled work cycles. In lieu of overtime payments, employees may also accrue and use compensatory time for those unscheduled hours.

Recording of Compensatory Time Accruals and Use

Certain compensatory time accruals and uses were not recorded in a manner facilitating compliance with applicable FLSA, CBA, and City policy requirements.

The Fire Chief may grant employee leave (granted time) for CBA-approved union business, court appearances, or other discretionary reasons. However, we noted the granted time pay code is also used to record hours more appropriately recorded as compensatory time, for which formal policies have not been developed. Compensatory time included hours earned for mandatory off-shift training, mandatory on-call responsibilities, and voluntary honor guard activities. While the amount of accrued compensatory time could not be determined because employees are expected to maintain their own accrual and balance records, approximately 4,700 total hours were recorded in the granted time pay code during the audit period.

Since the CBA counts granted time as "worked" for purposes of calculating scheduled overtime, treating compensatory time use as granted time does not reduce scheduled overtime payments as contemplated in the CBA.

Further, mixed use time records and informal OCFD practices do not allow accurate and complete monitoring of available compensatory time balances and required balance payouts or adequately facilitate compliance with mandatory vs. voluntary compensability standards (e.g., accrual rates).

RECOMMENDATION (6)

OCFD management should consult with Finance and Personnel to ensure off-shift compensatory time and balances are centrally recorded and monitored in Kronos. OCFD should also work with Personnel to ensure departmental policies and procedures adequately address compensatory time accruals, use, monitoring, and compensation rates, in compliance with applicable FLSA, CBA and City policy requirements.

OCFD Response

Agree with recommendation. This has been implemented. Because of shift variances among Fire employees (24, 13, 9, 8 hour shifts), comp time is established at the supervisor's level. Exception cards must be generated and checked with the appropriate box as earned or used. Also, the exception cards should state whether straight time or time and a half is indicated. Proper use codes are manually entered into KRONOS. These procedures are covered in the Fire Department Standard Operating Procedures (SOP) manuals and are consistent with the IAFF Collective Bargaining Agreement.

Consistency of Leave Usage Policies with CBA Requirements

Policies and procedures had not been developed for the treatment of certain leave impacting payment calculations as specified in the CBA.

During our assessment of scheduled overtime, we noted certain scenarios in which the treatment of leave impacting overtime payment calculations appears inconsistent with CBA requirements. Certain absences considered "worked" in accordance with the CBA (e.g., vacation) are not counted as worked in scheduled overtime payment calculations; while other absences not considered "worked" (e.g., sick or injury) in accordance with the CBA are counted as "worked". Instances of these scenarios appear infrequent. We noted 13 payments impacting 146 overtime hours.

Additionally, we learned that time in certain leave codes (other than those negotiated in the CBA) were recorded at a rate of two-thirds per hour. Recording leave at this rate could result in understated leave for certain leave types (e.g., injury leave) and overstated regular (i.e., non-exception) pay when applied to unpaid leave (e.g., leave without pay).

The absence of formal policies and procedures clearly consistent with CBA and other payroll-related requirements could result in contractually binding "past practices" with unintended financial impacts.

RECOMMENDATION (7)

OCFD should consult with Personnel and the Municipal Counselor's Office in developing departmental policies and procedures adequately addressing leave recording and usage:

- Based on a joint, consistent and integrated interpretation of CBA, FLSA, City policy or other applicable requirements.

- Considering all leave types and their impact on overtime and regular pay calculations.

- Considering applicability to unfulfilled shift exchanges between employees.

- Clearly documenting leave usage codes that may be recorded at less than a 1:1 ratio.

OCFD Response

Agree with recommendation. This has been implemented. Changes have been implemented to address issues with granted time. A breakdown of leave time conversion charts are included in the Fire Department SOP manual and a copy is attached. This conversion chart is included in the IAFF Collective Bargaining Agreement as a Memo of Understanding, and thus considered part of the CBA.

System Set Up and Incentive Payment Calculations

Certain incentive payment types and employee profiles were not set up in compliance with minimum FLSA and applicable CBA requirements.

CBA incentive payments (e.g., education, emergency medical certification, shift differential, etc.) are approved by OCFD administration and assigned, by Personnel, to PeopleSoft HR employee profiles for automated payment processing. While most incentive payments are earned by attaining certain levels of education or certifications, the shift differential incentive continues scheduled overtime compensation for certain 8-hour shift employees moving from 24-hour shifts. Incentive payments effectively result in an incremental increase in employee pay rates, thereby increasing overtime rates (for FLSA calculation requirements) and shift differential rates (for shift differential calculation requirements).

During our review of OCFD payrolls, we noted the following regular, systemic payroll non-compliance that, while not financially material, will result in continued non-compliance with FLSA, CBA, or other payroll requirements until corrected.

Identified Conditions	Potential Compliance Impacts
Pay codes to pay the incremental overtime and shift differential rates for education incentives had not been set up to pay on the second and third checks of the month…	resulting in regular FLSA and CBA underpayments; totaling approximately $23,200 during FY2010.
An overtime pay code to pay the incremental overtime rate for the shift differential incentive had not been created…	resulting in regular FLSA underpayments; totaling approximately $240 during FY 2010.
Pay code rates to pay the incremental overtime and shift differential amounts for all OCFD incentives were unnecessarily rounded up…	resulting in regular CBA overpayments; totaling approximately $2,200 during FY 2010.
The system pool used for accumulating hours to calculate shift differential incentive pay was not set up to capture hours in all and only appropriate pay codes…	resulting in a potential for CBA over/under-payments; none noted during FY 2010.
A few pay codes to pay the incremental overtime and shift differential for various incentive types were not appropriately assigned to 11 employees eligible for the related incentive pay…	resulting in regular FLSA and CBA underpayments; totaling $300 during FY 2010.

RECOMMENDATION (8)

To ensure compliance with FLSA, CBA and other payroll requirements, OCFD should consult with Personnel and Finance to:

- Review, document and correct the frequencies, rates, and pools associated with existing overtime and shift differential pay codes.

- Create or adjust exception reports to help identify and correct future incentive pay frequency and assignment errors.

- Create a new overtime pay code for employees receiving shift differential and overtime. Alternatively, consideration may be given to the use of compensatory time (in lieu of paid overtime) for all OCFD employees receiving the shift differential incentive.

OCFD Response

Agree with recommendation. A query to view pay frequencies on rates and shift differential and incentive pay has been established. The Fire Department will work with the Personnel Department to establish a query and report for the Fire Department to review assignment errors. The Fire Department will work with appropriate entities; the Municipal Counselor's Office, Personnel Department, the IAFF, etc. to determine correct pay codes for incentive payments; especially in relation to overtime and shift differential or will implement a system for comp time to be used in these instances. If necessary, pay code corrections will be made and payments will be adjusted for personnel. The expected implementation date for this is March 31, 2012.

STATUS OF PREVIOUS REPORT RECOMMENDATIONS

Previous recommendations regarding centralized payroll processing have been substantially implemented or addressed.

The June 30, 2011, status of, and related management responses to, payroll-related recommendations included in our previous audit report dated May 20, 2008, are included below.

Status (1) – Addressed. During our previous audit, Finance and Personnel had developed several exception reports to help detect and correct various errors (e.g., excessive, inconsistent, inappropriate, or duplicate hours, timecards or payments). These reports have been reasonably incorporated into procedures manuals to ensure timeliness and continuity of use.

Combined Personnel and Finance Response. *Concur.*

Status (2), (3), and (4) – Substantially Addressed. Among other factors, the accuracy of payroll processing involves an appropriate understanding, coordination and assignment of several PeopleSoft HR and Kronos employee profile settings, such as employment status (e.g., part-time, full-time, non-exempt, etc.), pay rules, work rules, overtime rules, etc.

Personnel and Finance have developed a methodology, which significantly improves the documentation and understanding of system settings and helps to prevent, detect and correct erroneous settings and related payments. This methodology includes the creation of:

- A schedule depicting the hierarchy of pay rules, work rules, overtime rules, etc. and improved departmental forms and instructions to guide a more congruent assignment of pay rules.

- Exception reports to identify and correct incongruent pay rule assignments.

- A schedule depicting pay code characteristics (e.g., department usage, employee usage, etc.) and targeted departmental training to guide a more congruent use of pay codes.

- Exception reports to identify and correct improper use of pay codes (e.g., part-time codes used by full-time employees).

The adopted methodology also improves the accuracy and completeness of known FLSA overtime errors identified during the previous audit.

Combined Personnel and Finance Response. *Concur.*

Status (5) – Implemented. Finance has adopted and distributed policies ensuring that timecard corrections entered by departments are reviewed and processed by Payroll in an off-cycle check run to reasonably prevent duplicate corrections.

Finance Response. *Concur.*

Status (6) – Implemented. Personnel has created an exception report to identify and correct employee profiles and related check deductions inconsistent with Medicare and Federal Insurance Contributions Act (FICA) classifications.

Combined Personnel and Finance Response. *Concur.*

Status (7) – Addressed. Since the previous audit, Personnel and IT identified and reconfigured a more accurate leave anniversary date field for automated exports from PeopleSoft HR to Kronos. Personnel also created an exception report (incorporated into their procedures) to identify and correct potential PeopleSoft HR and Kronos system date inconsistencies. Use of the new date and exception report should significantly reduce the risk of leave accrual errors resulting from un-posted and inaccurate anniversary dates.

Personnel Response*. Concur.*

Status (8) – Addressed. Unused and unauthorized on-the-job-injury (OJI) pay codes have been deactivated. Risk Management and Payroll have developed procedures in which bi-weekly OJI usage reports are provided to Risk Management to ensure all OJI usage is: approved, within physician-assessed limits, and in compliance with applicable policies.

Finance Response*. Concur.*

Status (9) – Status Not Determined.   The status of this recommendation was not determined as of June 30, 2011. While performing our review of segregation and Kronos self-edit settings as of May 3, 2010, we identified a number of related preventive controls included in Recommendation (1). Implementation of these preventive controls should adequately address this issue.

Combined Finance, Personnel and Information Technology Response*. Please see the response to Recommendation 1.*

Status (10) – Implemented. Finance and IT have created a more accurate exception report identifying timecards in need of electronic signoff. Payroll procedures have been updated to ensure the acquisition and retention of all required electronic signoffs and manual approvals.

Finance Response.* Concur.*

MEMORANDUM

The City of
OKLAHOMA CITY

To: Jim Williamson, City Auditor

From: James D. Couch, City Manager

Date: October 27, 2011

Subject: Audit of General Payroll Processing and OCFD Payrolls

Following are management's responses to recommendations outlined in the Audit of General Payroll Processing and OCFD Payrolls. Some of the responses reflect a coordinated effort among the four departments involved in the audit, and others reflect the individual departmental responses where appropriate.

1. *(Combined response from Finance, Personnel and Information Technology)* Agree with the recommendation. The Finance Department, Personnel Department and Information Technology Department will work together to develop a procedure that will provide for a periodic review of profile settings and staff assigned to profiles that will enhance prevention of self-edits and self-approval of timecards and leave balances. Since this will require significant effort, we will implement this process by September 30, 2012.

2. *(Information Technology response)* Agree with the recommendation. By December 31, 2011, Information Technology Enterprise Team will remove PeopleSoft HCM generic usernames to the extent practical. Where generic accounts are necessary for the system function, a mechanism for log review and exception reporting will be identified.

3. *(Finance Department response)* Agree with the recommendation. The Finance Department will work with IT and Personnel to redesign the authorization forms and procedures to ensure segregation of duties related to system security. We will implement this process by September 30, 2012. When employee verification of manually submitted direct deposit authorization forms is not practical, we will establish procedures to ensure the validity of such request. We will implement this process by March 31, 2012.

4. *(Finance Department response)* Agree with recommendation. Finance will request that I.T. establish a run control that creates the files during the regular payroll processing steps of payroll staff and places the resultant files in a secure location. Finance will implement procedures where manipulation would be

ineffective due to segregation of duties. Finance will implement this process by March 31, 2012.

(Information Technology Department response) Agree with recommendation. Upon receipt of Request for Change submitted to I.T. Service Desk by Finance, I.T. will follow prioritization process and work with Finance to complete the request. I.T. will look at enforcing strict access controls to these file locations as well as Event Tracker capabilities to log file creation and modification activities. Proposals will be made to the Auditor's Office to determine if controls are sufficient. The implementation of proposed options is expected to be complete by March 31, 2012.

5. *(Personnel Department response)* Agree with recommendation. This recommendation has been implemented for all City employees. The Personnel Department will contact the Trusts by December 31, 2011 to request process changes to fully implement the recommended change.

   (Information Technology Department response) Agree with recommendation. Automated process update has been set to 90 days.

6. *(Fire Department response)* Agree with recommendation. This has been implemented. Because of shift variances among Fire employees (24, 13, 9, 8 hour shifts), comp time is established at the supervisor's level. Exception cards must be generated and checked with the appropriate box as earned or used. Also, the exception cards should state whether straight time or time and a half is indicated. Proper use codes are manually entered into KRONOS. These procedures are covered in the Fire Department Standard Operating Procedures (SOP) manuals and are consistent with the IAFF Collective Bargaining Agreement.

7. *(Fire Department response)* Agree with recommendation. This has been implemented. Changes have been implemented to address issues with granted time. A breakdown of leave time conversion charts are included in the Fire Department SOP manual and a copy is attached. This conversion chart is included in the IAFF Collective Bargaining Agreement as a Memo of Understanding, and thus considered part of the CBA.

8. *(Fire Department response)* Agree with recommendation. A query to view pay frequencies on rates and shift differential and incentive pay has been established. The Fire Department will work with the Personnel Department to establish a query and report for the Fire Department to review assignment errors. The Fire Department will work with appropriate entities; the Municipal Counselor's Office, Personnel Department, the IAFF, etc. to determine correct pay codes for incentive payments; especially in relation to overtime and shift differential or will implement a system for comp time to be used in these instances. If necessary, pay code corrections will be made and payments will be adjusted for personnel. The expected implementation date for this is March 31, 2012.

Status of Previous Report Recommendations:

Status (1) *Personnel response*: Concur.
  Finance response: Concur.

Status (2, 3, 4) *Personnel response*: Concur.
  Finance response: Concur.

Status (5) *Finance response*: Concur.

Status (6) *Personnel response*: Concur.
  Finance response: Concur.

Status (7) *Personnel response*: Concur.

Status (8) *Finance response*: Concur.

Status (9) (*Personnel, Finance and Information Technology combined response*):
Please see the response to Recommendation 1. The Finance Department,
Personnel Department and Information Technology Department will work
together to develop a procedure that will provide for a periodic review of profile
settings and staff assigned to profiles that will enhance prevention of self-edits
and self-approval of timecards and leave balances. Since this will require
significant effort, we will implement this process by September 30, 2012.

Status (10) *Finance response*: Concur.