

AUDIT TEAM

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PAYROLL FOLLOW-UP AUDIT

AUGUST 16, 2016

MAYOR AND CITY COUNCIL

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<i>Mark K. Stonecipher</i>	<i>Ward 8</i>



August 16, 2016

The Mayor and City Council:


The Office of the City Auditor has completed an audit to evaluate the status of recommendations and related management responses included in our previous report dated October 8, 2013, regarding:


- Police Department (OCPD) payrolls and
- Unresolved recommendations from the 2011 report on our audit of Citywide payroll processing and Fire Department (OCFD) payrolls.

Based upon the results of our audit, we believe that as of February 29, 2016:

- OCPD has made significant progress in addressing previous audit recommendations.
- Unresolved recommendations relating to Citywide payroll processing included in our 2011 audit report have been partially implemented.
- OCFD has addressed but not fully implemented unresolved recommendations included in the report on our 2011 audit of OCFD payrolls.

The content and emphasis of the items included in this report have been discussed with appropriate management representatives to assure a complete understanding of the observations arising from our audit. Management responses are attached to this report in their entirety.


Jim Williamson
City Auditor


Tim Alvarez
Senior Auditor

PAYROLL FOLLOW-UP AUDIT

AUDIT OBJECTIVE, BACKGROUND, SCOPE AND METHODOLOGY

The objective of this audit was to evaluate the status, as of February 29, 2016, of recommendations and related management responses included in our audit report dated October 8, 2013, which included the following results:

- Oklahoma City Police Department (OCPD) payrolls were materially accurate, complete, valid and reasonably complied with applicable payroll-related regulations; however, certain OCPD policies and procedures were not consistently applied across all pay locations.
- Significant progress had been made by the Finance, Personnel and Information Technology Departments in addressing previously recommended citywide payroll processing improvements. These recommendations were initially included in a 2011 report on an audit of citywide payroll processing.
- The Oklahoma City Fire Department (OCFD) had not developed previously recommended policies governing recording and use of some leave types. These recommendations were initially included in a 2011 report on an audit of OCFD payrolls.

Payroll and related personnel costs are the single largest expenditure for the City, representing 70% of the \$657 million operating budget. OCPD and OCFD are the two largest departments with 1,455 and 1,008 budgeted positions, respectively, of the City's 4,743 authorized positions¹. Payroll clerks and supervisors at numerous locations in both departments are responsible for processing employee payrolls in compliance with collective bargaining agreements (CBAs), the Federal Fair Labor Standards Act (FLSA), and City and departmental policies.

Certain payroll-related responsibilities such as new employee set-up and employee terminations; administering system access settings; and monitoring data accuracy are handled in the Finance Department's Payroll Division, the Personnel Department's HRIS Division, and the Information Technology Department's Enterprise Applications Division.

Procedures performed during this audit include interviewing management personnel; reviewing relevant governing regulations, CBAs, arbitration rulings, and policies; analyzing OCPD and OCFD payroll records; and reviewing account setup, access profiles and monitoring procedures for the City's payroll system (Kronos) and financial system (PeopleSoft).

We conducted this audit in accordance with generally accepted government auditing standards, which require 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.

¹ FY 2015-2016 Adopted Budget – The City of Oklahoma City

The following sections of this report present the status of prior audit recommendations. Each status is followed by management's response. Management's responses are attached to this report in their entirety.

POLICE DEPARTMENT PAYROLLS

Significant progress has been made in addressing previous audit recommendations.

Status of Recommendation 1 – Not Implemented

We noted during the 2013 audit that secondary review of hours entered into Kronos was not occurring at 3 of 7 pay locations tested. We also noted that employee and supervisory approvals of manual timesheets were not consistently documented at 1 of the 7 pay locations.

While examining time records relating to the pay period ended February 25, 2016, we found that records for 6 of 16 employees tested, at 4 of 8 locations, did not contain both the employee and supervisor's signature on manual timesheets or overtime/leave cards.

Management has not developed policies ensuring that all pay locations perform a secondary review of hours entered into Kronos nor have policies been developed to ensure that all manual time records are approved by both employees and supervisors.

OCPD Response 1

Agree with recommendation. OCPD will ensure that all pay locations follow consistent procedures for independent secondary review and approval of time entered into Kronos, and that both employees and supervisors review and approve manual timesheets. Procedures for secondary review and approval of time entered into Kronos will be distributed to payroll clerks and supervisors at each OCPD pay location by December 31, 2016. Policies for employee and supervisor review and approval of manual timesheets will be distributed to all employees at each OCPD pay location by December 31, 2016.

Status of Recommendation 2 – Addressed

During the 2013 audit we observed at 1 of 9 pay locations, uniformed employees whose daily schedules were modified to accommodate training or operational needs were allowed to use leave time to complete their regularly scheduled shift and were then paid overtime rates for time

worked outside their regular shift. The other 8 locations considered the revised schedule to be the employee's regularly scheduled work hours for overtime determination. OCPD has negotiated the latter approach into the FY 2015-2016 CBA, which was approved by City Council on January 19, 2016.

OCPD Response 2

Agree with recommendation. OCPD has addressed the issue of FOP employee time worked outside of the regular work schedule being consistently and equitably recorded and paid with the inclusion of flexible scheduling in Section 17.1 of the 2015-2016 CBA, which was approved by City Council on January 19, 2016.

Status of Recommendation 3 – Addressed

Formal policies governing flex-time for uniformed employees were not in place during the 2013 audit. OCPD has addressed flex-time in the FY 2015-2016 CBA, which was approved by City Council on January 19, 2016.

OCPD Response 3

Agree with recommendation. OCPD procedures governing FOP employee-initiated work schedule changes in lieu of leave usage have been addressed in the 2015-2016 CBA, which was approved by City Council on January 19, 2016.

Status of Recommendation 4 – Not Implemented

During the 2013 audit we observed at 7 of 9 pay locations, civilian employees would occasionally use leave time for all hours not worked on a regularly scheduled shift while also working more hours than regularly scheduled on other shifts during the pay period. This resulted in the employees being paid more than 40 hours of straight time for a week. The other two locations required employees to record leave time only to the extent needed for 40 hours to be paid for a week.

Management has not developed a policy to provide for appropriate, consistent leave recording in the circumstance described above.

OCPD Response 4

Agree with recommendation. OCPD will develop policies regarding civilian employees' use of leave time for hours not worked on a regularly scheduled shift while also working more hours than regularly scheduled on other shifts during the pay period, resulting in payment of more than 40 hours of straight time within a work week. The developed policies will be documented and distributed to employees, payroll clerks and supervisors at each OCPD pay location by December 31, 2016.

Status of Recommendation 5 – Implemented

OCPD and the Finance Department have developed distinct pay codes within the Kronos and PeopleSoft systems to record program hours worked for various Federal grant programs and other agreements that provide for reimbursement. Invoices are prepared by program supervisors using summary pay code reports, and completed invoices are submitted to the OCPD Administration Office for review and approval prior to submittal to the reimbursing entity.

OCPD Response 5

Agree with recommendation. OCPD has developed distinct pay codes within Kronos and PeopleSoft systems to record program hours worked for various Federal Grant programs and other agreements that provide for reimbursement. Invoices are prepared by program supervisors using summary pay code reports, and completed invoices are submitted to the OCPD Finance Office to be compared to reimbursements when they are received.

Status of Recommendation 6 – Implemented

Subject to the reimbursing entity's ability to transfer funds electronically, reimbursements relating to Federal grant programs and other agreements are received directly by the City Treasurer's Office via electronic fund transfer. OCPD and the City Treasurer's Office are developing a shared database to exchange information on reimbursement invoices and related electronic fund transfer receipts.

OCPD Response 6

Agree with recommendation. OCPD has worked with the City Treasurer's Office and reimbursing entities to address reimbursements that have been previously received by check to switch them to electronic fund transfers. OCPD will continue in this effort with the City Treasurer's Office to reduce the amount of checks received directly in the Police Department.

CITYWIDE PAYROLL PROCESSING

Unresolved recommendations from a previous follow-up audit have been partially implemented.

Status of Recommendation 7 – Partially Implemented

During the 2013 follow-up audit we verified that exception reports had been developed and were being used to ensure self-edits and approvals of timecard data by employees were valid. However, these timecard exception reports did not include edits and approvals made by generic Kronos user accounts. Additionally, exception reports identifying self-edits to leave balance data by employees and generic Kronos user accounts had not been developed.

A report listing timecard approvals by generic Kronos user accounts has been developed and is reviewed by the Payroll Supervisor. Exception reports identifying timecard and leave balance edits by generic Kronos user accounts have not been developed. Additionally, a useful exception report identifying self-edits by employees to their leave balance data has not been developed.

Information Technology Department Response 7

Agree. I.T. has the following related project #71659 Exception reports identifying timecard and leave balance edits by generic Kronos user accounts have not been developed. Additionally, a useful exception report identifying self-edits by employees to their leave balance data has not been developed (Enterprise Program); this project is in the proposed status with estimated start date of 4th quarter FY17.

Finance Department Response 7

Agree with recommendation. By March 1, 2017, the Finance Department will work with the IT Department on the development of exception reports that will identify edits by generic KRONOS users of timecard and leave balance edits, and self-edits by employees to their leave balances. The Payroll Supervisor will review the reports and forward results to the applicable department representatives each payroll.

Status of Recommendation 8 – Partially Implemented

During the 2013 follow-up audit we verified that generic PeopleSoft user accounts allowing self-edit of pay rates and bypass of segregation controls over adding employees, setting

compensation, and initiating or routing payments had been disabled to the extent possible. We also verified that exception reports had been developed and were being used to monitor generic user account login activity. However, these exception reports did not consider new generic user accounts and were being reviewed by an employee with access to the generic user accounts.

The status of this recommendation has not changed since our last audit.

Information Technology Department Response 8

Agree. I.T. has the following related project #71660 Exception report to include new generic users as added by ORACLE and develop process for monthly review by team member (Enterprise Program); queue status with a start date of 3rd quarter FY17.

FIRE DEPARTMENT PAYROLLS

Unresolved recommendations from a previous follow-up audit have been addressed but not fully implemented.

Status of Recommendation 9 – Addressed but not Fully Implemented

During the audit in 2011 we noted that compensatory time was not centrally recorded in Kronos. We also noted that a policy outlining compensatory time accruals, use and compensation rates in compliance with applicable FLSA, CBA and City policy requirements had not been developed.

During our 2013 follow-up audit we determined that these conditions still existed. OCFD had forwarded a draft Compensatory Time Standard Operating Procedure (SOP) to the Personnel Department and Municipal Counselor's Office for review, with implementation of the SOP ultimately dependent upon CBA negotiations.

OCFD is now using Kronos to account for compensatory time while the compensatory time SOP remains in draft form.

OCFD Response 9

Agree with recommendation. The Fire Department will continue to work with the Personnel Department, the Municipal Counselor's Office, and the IAFF to include the draft compensatory time SOP in upcoming SOP revisions.

Status of Recommendation 10 – Addressed but not Fully Implemented

During the audit in 2011 we noted that a policy addressing recording and usage of certain leave types had not been developed.

During our 2013 follow-up audit we determined that OCFD had drafted SOPs governing time while assigned to light duty, accounting for leave relating to unfulfilled shift exchanges, specifying which leave codes are considered time “worked” in overtime calculations, and identifying which leave codes are recorded at less than a 1:1 ratio. These SOPs were forwarded to the Personnel Department and Municipal Counselor’s Office for review, with implementation ultimately dependent upon CBA negotiations.

The SOPs described above remain in draft form.

OCFD Response 10

Agree with recommendation. The Fire Department will continue to work with the Personnel Department, the Municipal Counselor’s Office, and the IAFF to include draft SOPs and/or CBA additions that address this issue, in upcoming SOP revisions and/or IAFF negotiations.

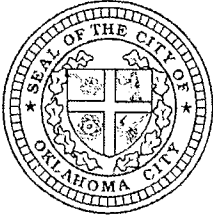
New Recommendation 11

The OCFD payroll process is complex, especially given the unique scheduling and CBA provisions applicable to uniformed personnel. Currently, OCFD has one payroll officer capable of overseeing the payroll process for the department’s 1,008 budgeted positions. Although attempts have been made to cross-train other personnel to serve as the back-up for the payroll officer, transfers and promotions have hampered those efforts.

Management should continue efforts to train additional employees capable of overseeing the OCFD payroll process.

OCFD Response 11

Agree with recommendation. The Fire Department will work toward cross training more personnel to back-up the payroll officer. Fire Human Resources personnel have been identified for this back-up roll and the training will begin soon.



MEMORANDUM

The City of
OKLAHOMA CITY
Police Department



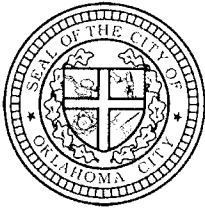
TO: Jim Williamson, City Auditor
THROUGH: James D. Couch, City Manager *JDC*
FROM: William Citty, Chief of Police *W.Citty*
DATE: August 8, 2016
SUBJECT: Audit #16-02A Police Payroll Follow-up Audit

Following are management's responses to recommendations outlined in Audit #16-02A Police Payroll Follow-up Audit.

1. Agree with recommendation. OCPD will ensure that all pay locations follow consistent procedures for independent secondary review and approval of time entered into Kronos, and that both employees and supervisors review and approve manual timesheets. Procedures for secondary review and approval of time entered into Kronos will be distributed to payroll clerks and supervisors at each OCPD pay location by December 31, 2016. Policies for employee and supervisor review and approval of manual timesheets will be distributed to all employees at each OCPD pay location by December 31, 2016.
2. Agree with recommendation. OCPD has addressed the issue of FOP employee time worked outside of the regular work schedule being consistently and equitably recorded and paid with the inclusion of flexible scheduling in Section 17.1 in the 2015-2016 CBA, which was approved by City Council on January 19, 2016.
3. Agree with recommendation. OCPD procedures governing FOP employee-initiated work schedule changes in lieu of leave usage have been addressed in the 2015-2016 CBA, which was approved by City Council on January 19, 2016.
4. Agree with recommendation. OCPD will develop policies regarding civilian employees use of leave time for hours not worked on a regularly scheduled shift while also working more hours than regularly scheduled on other shifts during the pay period, resulting in payment of more than 40 hours of straight time within a work week. The developed policies will be documented and distributed to employees, payroll clerks and supervisors at each OCPD pay location by December 31, 2016.
5. Agree with recommendation. OCPD has developed distinct pay codes within Kronos and Peoplesoft systems to record program hours worked for various Federal Grant programs other agreements that provide for reimbursement. Invoices are prepared by program supervisors

using summary pay code reports, and completed invoices are submitted to the OCPD Finance Office to be compared to reimbursements when they are received.

6. Agree with recommendation. OCPD has worked with the City Treasurer's office and reimbursing entities to address reimbursements that have been previously received by check to switch them to electronic fund transfers. OCPD will continue in this effort with the City Treasurer's Office to reduce the amount of checks received directly in the Police Department.



MEMORANDUM

The City of
OKLAHOMA CITY



TO: Jim Williamson, City Auditor
THROUGH: James D. Couch^{JDC} City Manager
FROM: Schad Meldrum, IT Director ^{WSM}
DATE: July 28, 2016
SUBJECT: Response to Auditors Report #16-02A "Payroll Follow-Up Audit"

IT's Response to Auditors Report #16-02A "Payroll Follow-Up Audit":

Recommendation 7

Agree – I.T. has the following related project #71659 *Exception reports identifying timecard and leave balance edits by generic Kronos user accounts have not been developed. Additionally, a useful exception report identifying self-edits by employees to their leave balance data has not been developed* (Enterprise Program); this project is in proposed status with a estimated start date of 4th quarter FY17.

Recommendation 8

Agree – I.T. has the following related project #71660 *Exception report to include new generic users as added by ORACLE and develop process for monthly review by team member* (Enterprise Program); queue status with a start date of 3rd quarter FY17.



MEMORANDUM

The City of
OKLAHOMA CITY



TO: Jim L. Williamson, City Auditor

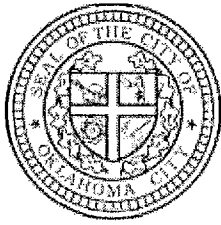
THROUGH: James D. Couch *JDC* City Manager

FROM: Craig A. Freeman, Finance Director *CF*

DATE: July 13, 2016

SUBJECT: Audit# 16-02A, Finance Department, Accounting Services Division Payroll Audit Response Finding #7

Agree with recommendation: By March 1, 2017, the Finance Department will work with the IT Department on the development of exception reports that will identify edits by generic Kronos users of timecards and leave balance edits, and self-edits by employees to their leave balances. The payroll supervisor will review the reports and forward results to the applicable department representatives each payroll.



MEMORANDUM

The City of
OKLAHOMA CITY



TO: Jim Williamson, City Auditor

THROUGH: James D. Couch *JDC* City Manager

FROM: G. Keith Bryant, Fire Chief *GKB*

DATE: July 29, 2016

SUBJECT: Follow up to Audit #10-07 Fire Department, Audit of General Payroll Processing and OCFD Payrolls

Recording of Compensatory Time Accruals and Use RECOMMENDATION (9)

During the audit in 2011 we noted that compensatory time was not centrally recorded in Kronos. We also noted that a policy outlining compensatory time accruals, use and compensation rates in compliance with applicable FLSA, CBA, and City policy requirements had not been developed.

During our 2013 follow-up audit we determined that these conditions still existed. OCFD had forwarded a draft Compensatory Time Standard Operating Procedure (SOP) to the Personnel Department and the Municipal Counselor's Office for review, with implementation of the SOP ultimately dependent upon CBA negotiations.

OCFD is now using Kronos to account for compensatory time while the compensatory time SOP remains in draft form.

OCFD Response

Agree with recommendation. The Fire Department will continue to work with the Personnel Department, the Municipal Counselor's Office, and the IAFF to include the draft compensatory time SOP in upcoming SOP revisions.

Policy addressing recording and usage of certain leave types. RECOMMENDATION (10)

During the audit in 2011 we noted that a policy addressing recording and usage of certain leave types had not been developed.

During our 2013 follow-up audit we determined that OCFD had drafted SOPs governing time while assigned to light duty, accounting for leave relating to unfulfilled shift exchanges, specifying which leave codes are considered time "worked" in overtime calculations, and identifying which leave codes are recorded at less than a 1:1 ratio. These SOPs were forwarded to the Personnel Department and Municipal Counselor's Office for review, with implementation ultimately dependent upon CBA negotiations.

The SOPs described above remain in draft form.

OCFD Response

Agree with recommendation. The Fire Department will continue to work with the Personnel Department, the Municipal Counselor's Office, and the IAFF to include draft SOPs and/or CBA additions that address this issue, in upcoming SOP revisions and/or IAFF negotiations.

Train additional employees capable of overseeing the OCFD payroll process

NEW RECOMMENDATION (11)

The OCFD payroll process is complex, especially given the unique scheduling and CBA provisions applicable to uniformed personnel. Currently, OCFD has one payroll officer capable of overseeing the payroll process for the department's 1,008 budgeted positions. Although attempts have been made to cross-train other personnel to serve as the back-up for the payroll officer, transfers and promotions have hampered those efforts.

Management should continue efforts to train additional employees capable of overseeing the OCFD payroll process.

OCFD Response

Agree with recommendation. The Fire Department will work toward cross training more personnel to back-up the payroll officer. Fire Human Resources personnel have been identified for this back-up roll and the training will begin soon.