

CITY OF ALBANY

Office of Audit and Control

Performance Audit of the City of Albany Payroll Operations

**Audit Report
September 2013**

Leif Engstrom
Chief City Auditor



Audit Team

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PREFACE

The Office of Audit and Control exists to provide oversight, transparency and public accountability as a means to improve city services. This performance audit is a part of that function.

When the Office of Audit and Control takes on an audit client and, absent evidence of misconduct, that client addresses the audit's findings; it is our commitment to support and encourage their use of the audit process to improve their operations.

This audit was conducted with the full cooperation of the all of the City of Albany departments that fell within its scope and with the exception of an ongoing discussion regarding the recording of salaried employees' time, the Mayor's Office and City Treasurer have committed to addressing its findings.

The proper use of the audit findings in these circumstances is to provide for oversight of the resulting changes and as the basis for informed public policy discussions.

Given that the city's many departments have given their full cooperation, it would be unfair and damaging to the audit process for this audit's findings to be used for political gain. As such, the Office of Audit and Control will view the political use of this audit's findings as detrimental to our mission.

We thank all the different departments involved for their cooperation and commitment.

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Executive Summary

This audit is the first of what will be an annual audit of different parts of the city's payroll process. Being the first, it is fairly broad in its scope to provide direction and information for subsequent audits. This audit covers the period of January 2011 through September 2012.

This audit revealed that while most departments track time worked according to the city's personnel policies and procedures, some do not. The audit also identified two systematic issues that should be addressed:

- DGS has an outdated and cumbersome punch card system that is vulnerable to errors and abuse.
- The Payroll Office should formalize and index its policies and procedures for efficient reference so that it does not rely too much on the institutional knowledge of individuals.

Beyond the systematic issues, the Office of Audit and Control identified a number of individual findings that can be addressed by better following existing controls or improving the existing controls.

The city's payroll process is complex by nature, particularly with the wide array of city services and many different union contracts. The city's outdated and cumbersome financial computer system only adds to the difficulty of producing an accurate weekly payroll.

Within this complex system there are common standards and procedures that apply across the organization. Foremost among those are the citywide rules for recording hours worked and overtime approval. City policy requires all departments to keep records of time worked for all but elected employees. The policy also requires overtime to be kept to a minimum and authorized.

To test these policies, a random sample of 100 employees was used and their payroll records were examined. At the departmental level, OAC looked at internal controls for time keeping and overtime. In addition to the employee and department-level review, some activities of the Payroll Office were also reviewed in this audit.

The subjects of this audit report to two independently elected officials. The Payroll Office reports to the City Treasurer while departmental payroll duties and are performed by people who report to the Mayor.

The City's payroll process is complex by nature, particularly with the wide array of City services and many different union contracts.

The City's outdated and cumbersome financial computer system only adds to the difficulty of producing an accurate weekly payroll.

Background

This audit examined some of the controls used in the various processes the city uses to pay its employees. In 2012, the City of Albany employed 1,346 people. The wages and salary expenses for those employees accounted for \$73.2M, or 43% of the 2012 City budget.

The audit was initiated as a result of two of the Office of Audit and Control's (OAC) responsibilities under the City Charter. The Charter charges OAC with conducting performance audits of all city departments as well as warranting as valid all accounts payable prior to payment by the City Treasurer.

As required by the Charter, OAC audits all of the city's payments, including payroll, prior to payment. Unfortunately with items such as weekly payroll, a full review of each payment is not possible. In order to provide confidence in warranting the payroll payments as valid, OAC engages in the following three activities:

- A weekly review of payroll totals
- A full review of all changes made to the payroll system as a result of changes in an employee's employment status (hiring, transfers, promotions, etc.)
- An annual performance audit of a portion of the city's payroll system (This is the first such audit.)

Being the first annual payroll audit, this audit has a broad scope and covers all large city departments and many smaller offices. This broad scope will allow OAC staff to better prioritize payroll audits for the next few years.

Two policies in the City Personnel Manual are vital to this audit:

1. Article 6 of the Personnel Manual addresses timekeeping for all city employees: "For all employees, with the exception of Elected Officials, a record of hours worked and leave used will be maintained." This requirement is a management control to ensure that employee time worked and time-off are paid and accrued accurately.
2. Article 4 of the Manual addresses overtime: "It is the policy of the City of Albany that overtime work is to be held to a minimum, consistent with the needs and requirements of sound and orderly administration of City government. However, in cases of extreme

"For all employees, with the exception of Elected Officials, a record of hours worked and leave used will be maintained."

-City Personnel Manual

“It is the policy of the City of Albany that overtime work is to be held to a minimum, consistent with the needs and requirements of sound and orderly administration of City government.”

-City Personnel Manual

emergencies when assignments cannot be completed within the basic workweek, overtime may be authorized at the discretion of the department head.” The authorization requirement for overtime is a management control to limit overtime expenses.

Scope, Objectives and Methodology

Scope

The records examined in this audit date from January 2011 to September 2012.

The objectives of this audit are to:

1. Determine whether internal controls over payroll are effective and that there is reasonable assurance that payroll is correct.

To accomplish this, OAC identified the following sub-objectives:

- A. Determine concurrence between actual payroll expenses and budgeted payroll.
- B. Determine whether departments have adequate time and attendance controls.
- C. Determine whether overtime payments and compensatory earned time are properly authorized and valid.
- D. Determine whether W2s were correctly reported (2011).
- E. Determine whether W4s recorded correct exemptions for withholding.

Methodology

In order to achieve the sub-objectives, the audit team did the following:

- A. Reviewed budgeted pay (including E&A approved budget amendments) and compared the budgeted pay to the actual pay recorded on the AS400/NWS payroll system and the city’s general ledger /financial accounting system;
- B. Did a survey of all city departments to become familiar with the controls each department has in place for payroll. Audit staff also reviewed time and attendance controls at the department level by reviewing time records for a random sample of 100 employees;
- C. Reviewed overtime and compensatory time records for management approvals using the random sample of employees.

- D. Reviewed the 2011 W2s for the sampled employees and compared to payroll records on the AS400/NWS;
- E. Reviewed the 2011 W4s for the sampled employees and compared to payroll records on the AS400/ NWS.

For objectives D and E, OAC staff met with the Payroll Manager to become familiar with payroll procedures and controls. We reviewed procedural documents made available to us. In addition, any significant issues that fell within the scope of this audit that arose during OAC's routine weekly auditing activities were researched and included in this report.

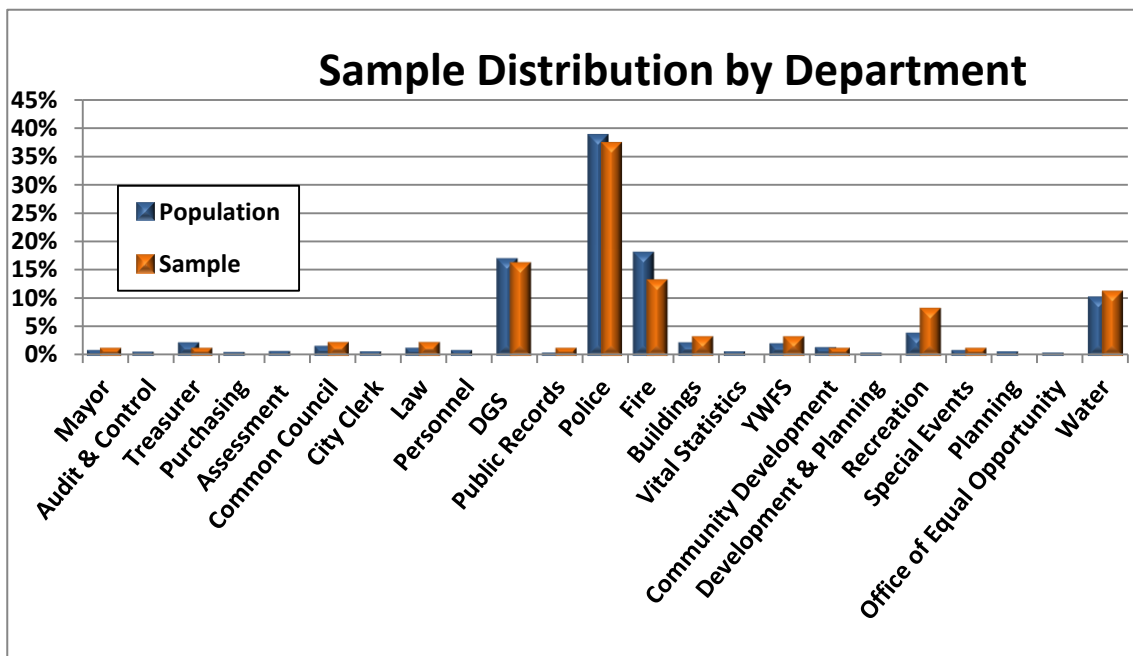
Sample

A random sample of employees was created by running the employee status report for active employees from the AS400/NWS. The data was imported into Microsoft Excel. Excel's random sampling function was used to select a sample of 100 employees and is described in Appendix 1.

Evaluation of the sample

Percentages of employees in each department selected in the sample are in line with the percentages of the number of employees in each department for the entire city workforce.

As shown in the graph below, the sample fairly represents the workforce.



Audit Results

Time Keeping

Recording employees' time worked is a management tool that, as would be expected, varies significantly by city department and job title. While most city departments adequately record hours worked for most employees, that is not the case for all departments and employees.

The audit team noted many variations for timekeeping between and within departments. Some departments use time clock systems (both modern and antiquated), while others require that employees maintain time sheets to record time worked. Some departments, such as Police and Fire, use their line-ups, rosters and shifts to track the hours of their uniformed personnel. While most of the city's personnel have their daily time worked tracked, some departments and some positions within departments do not track actual daily time worked.

All departments sign and return weekly payroll reports that are generated and distributed by the Payroll Office. These payroll reports are distributed before the work week ends and have the employees' scheduled hours preprinted. The report also includes the number of hours-off taken in the previous week. That is information each department sends separately to the Payroll Office.

All employees and their supervisors sign a monthly record of scheduled time and time taken off. Corporation Counsel has determined that this document meets the city policy requirement for a record of hours worked for salaried employees because it records time-off for sick, vacation and personal time and it has salaried employees confirm that they have worked their scheduled number of hours. Since Personnel falls under the purview of the Corporation Council, OAC accepts this determination.

Overtime

The audit team reviewed time records with recorded overtime from the sample for supervisory approval. One exception was identified: one of the sampled timecards, from a DGS employee, showed overtime but no supervisory approval.

The audit team also identified an occurrence of a Water Department employee consistently working forty or more hours every week, but is

scheduled for 35 hours a week. The overtime was approved however this type of weekly overtime is not consistent with city policy.

Payroll Office

Review of payroll records revealed that two employees had not had Social Security and Medicare taxes withheld for a period of time, that confidential employee information was unnecessarily printed on some reports, and that the city's federal payroll taxes had been paid a day late in one instance.

Audit Findings

Finding 1: Some city departments do not record actual daily hours worked for all employees.

The risk of abuse of paid time-off (vacation, sick, or personal) increases when hours worked records are not maintained.

The vast majority of city employees have their hours worked tracked in accordance with city policy and all employees sampled in this audit had their vacation, personal and sick time tracked. Some city departments however, do not record actual daily hours worked for all of their employees.

The city's Personnel Policy and Procedures require that a record of hours worked and leave used be maintained for all employees with the exception of elected officials. It is important to maintain these records for the following reasons.

- These records can be important aids when reconciling payroll records for hourly paid employees.
- Having an established time keeping requirement could help defend against a possible employee claim for overtime worked but not paid.
- Timesheets signed by both the employee and supervisor provide reliable documentation should a dispute arise regarding payment of regular and/or overtime hours worked.

As noted above, keeping records of actual time worked is especially important for employees eligible for overtime. The daily hours worked records were not available for the following departments that do pay overtime to the covered employees:

Special Events: Hours worked records were not available for the employees in the sample. Overtime is recorded when employees are required to work at events after regular work hours.

Fire: Hours worked records were not available for one employee from our sample who works in the FIU (Fire Investigation Unit). Hours worked records were available for the other employees in the sample.

In addition to the overtime eligible employees listed above, there are many exempt (salary) employees for whom actual daily hours worked records are not maintained. All salaried employees do sign a monthly sheet confirming that they worked the scheduled number of hours (less time-off) for their positions.

Some departments also maintain weekly sheets that show hours scheduled and time taken while some departments, DGS and Recreation in particular, keep timesheets that record the actual hours worked by salaried employees.

There is some question about the importance of maintaining a record of actual hours worked for salaried employees, particularly those who regularly work more than their scheduled hours. There is some merit to this since the employees' paychecks are not dependent on hours worked.

While it is not required by city policy, it is OAC's opinion that keeping a record of actual daily hours worked is a good practice for salaried workers. It gives managers a better picture of who is being over or under worked and what tasks require more or less staffing. Also, when time-off can be confirmed with records of actual time worked, the accounting for time-off becomes more accurate. Additionally, it is fairer to the employees for them to have the extra time worked acknowledged, even if they are not reimbursed for the time.

Finally, tracking time for salaried (exempt) employees does not necessarily require an employer to compensate them for extra time worked.

Recommendation

OAC recommends that all departments adopt a policy requiring employees to maintain a record of actual daily hours worked and that those records should be signed or electronically approved by the employee and by the employee's supervisor.



Finding 2: The Payroll Office's internal policies and procedures are not indexed or compiled into a manual.

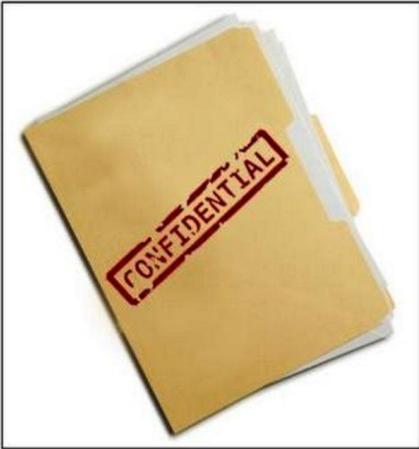
When OAC asked for policies and procedures, the Payroll Manager provided an electronic folder with documents containing instructions and/or examples of how to do various tasks for payroll processing. There is no cohesive document or index that combines the procedures in an organized manner so instructions for a task or procedure could be easily located for payroll staff.

The audit team identified some important complex tasks that are referenced in Payroll's documents for which we could not find any further instructions. The audit team also could not identify a written policy in the documents for lost or destroyed paychecks, a frequent occurrence. Compiling a manual would encourage the department to identify any gaps that may exist and make the instructions and policies easy to find.

The lack of a structured set of policies and procedures ~~manual~~ can result in avoidable errors in payroll processing.

Recommendation

OAC recommends that the Treasurer's staff combine the various instructions into a Payroll Office Internal Policies and Procedures Manual or other indexed format. In the process, the Payroll Office should identify and fill any significant gaps.



Finding 3: Confidential employee information is included on payroll reports and other documents.

Social security numbers were included on payroll reports that are distributed to the Office of Audit and Control.

The social security numbers are not needed on the reports and payroll does not have control of this data once reports or documents leave the Payroll Office.

Data such as social security numbers should not be on reports or documents that are accessible to people outside the Payroll or Personnel Departments unless there is a valid reason. There is a risk of identity theft if the reports/documents end up in the wrong hands.

It is important to note that the audit team did not look for or find any cases of identity theft in this audit. OAC staff is not aware of any such cases resulting from information in the City of Albany Payroll or Personnel offices.

Recommendation

Identify payroll reports and other documents that include important confidential employee information. Any reports or documents that do not need confidential information should be amended to exclude it. This recommendation is an important practice for all departments working with confidential information.

Require that city personnel handling documents containing confidential information sign a Non-Disclosure Agreement.

Finding 4: The time keeping system used by the Department of General Services is outdated and cumbersome.

DGS is currently using an antiquated punch card system for time keeping. The department keeps the records and enters the time into the AS400/NWS payroll system.

Punch card time keeping systems can be manipulated to cover lateness or absenteeism. Time cards can be punched in or out by anyone. There is no distinct identifier such as a palm/thumb scan, scannable ID card, or password. In addition, there is opportunity for errors to be made in calculation of the hours worked and data entry

The Department of General Services employs 225 people (17% of the City's workforce) necessitating a modern timekeeping system

during the manual calculation and transference of the time card hours/data into the AS400/NWS.

Using time and attendance software allows for more accurate monitoring of employee clock-in and clock-out times as well as integration of punch clock hardware. A biometric time and attendance system or devices such as fingerprint and palm scanners allow employees to clock in without the use of time cards and help prevent the occurrence of time card fraud and “buddy punching” (when one employee clocks in for an absent friend).

A more modern biometric electronic system was purchased a number of years ago and is being considered for installation under the direction of the city’s new Chief Information Technology Officer (CITO).

Recommendation

DGS should coordinate with the CITO to implement a new time keeping system either using the existing legacy system or within a new city-wide Enterprise Resource Planning (ERP) system that is being considered.

A new timekeeping system would ideally enable DGS to track the job an employee works each day so DGS can calculate the costs of different activities. This would address Finding 2 in the 2012 Street Maintenance Audit, which covered DGS’s inability to identify project labor costs. The CITO has reported that the legacy system does not have this capability, so OAC would support waiting for the ERP to be installed if city management is committed to moving decisively in that direction.

Finding 5: Some employees in the sample for DGS - Parks handwrote times in or out instead of punching in or out using the punch time clock.

One DGS-Parks employee frequently handwrote the times in or out on a punch time card and the overtime for that employee was not approved in writing by a supervisor. Another DGS-Parks employee in the sample did not punch out on Fridays; instead the time out was handwritten for all of that employee’s records in the sample.

Simplex
WEEK ENDING 2-10/2-16
No. [redacted]
NAME [redacted]
50 1/2 hrs
OT 11
1-30
5-30
40
11
OT

1st DAY	2nd DAY	3rd DAY	4th DAY	5th DAY	6th DAY	7th DAY
5b	2		1b	1	1	
2000	3 hrs sick	2 hrs check on kitchen	1600	1600	1600	
snw storm-OT	4 11:44	5 12:11				
3 12:02	4 11:44	5 12:11				
8	4 11:44	5 12:11				
13	8	2		9x	9	9
DAILY TOTAL			HOURS		RATE	
160-8111			REGULAR		AMOUNT	
© SIMPLEX			OVERTIME			
TIME RECORDER CO.			TOTAL HOURS		GROSS EARNINGS	
1-800-426-6226						
DAYS WORKED						

These instances could indicate inconsistent enforcement and/or abuse of the Department's work rules. If the hourly employee reports in and out at the DGS facility, the time card should have been punched using the time clock. Unscheduled overtime requires supervisory approval and the DGS procedure is that the supervisor initials or writes their radio# on the time card.

Recommendation

Management should review time records to ensure that Department procedures are followed. The instances identified in this finding would be less likely to occur with a modern timekeeping system. (See Finding 4.)

Finding 6: Late payment of withholding tax.

In September 2012, one weekly payment of Federal Taxes withheld from employees wages was paid one day late. This appears to have occurred due to a lack of clear procedures to delegate duties when key staff is absent. The late payment resulted in a \$7,470 fee.

Weekly payroll taxes must be paid on time as late payments of payroll taxes result in significant finance charges.

Recommendation

The Payroll Office should develop clear procedures for delegating duties when staff members are absent.

A supervisor in finance/accounting (either the Deputy Treasurer or the Assistant Treasurer) should supervise the weekly tax payments because even minor lapses can result in significant penalties.

Finding 7: Social Security and Medicare Taxes were not withheld on two city employees.

FICA and Medicare should be withheld from all earnings except for 207A and 207C employees (firefighters and police injured on the job who are unable to work). The social security tax has a wage base limit but the Medicare tax does not.

One Fire Department employee had no FICA or Medicare Taxes withheld from 9/14/12 through 2/8/2013.

The city's quarterly federal tax reports/payments were affected as well.

One Police Department employee (a crossing guard) had no FICA or Medicare taxes withheld from 6/16/2011 to 4/26/2013.

Corrected 941X reports were filed with the IRS by the Payroll Manager in May 2013 and the taxes were paid.

The employees identified in this finding were not in the sample of 100 employees used in this audit. This finding was identified through OAC's weekly review of payroll documentation.

Recommendation

The Payroll Office should review the weekly payroll registers for such omissions before they are sent out to departments.

Department managers and department payroll liaisons who sign off on the weekly payroll register should review the payroll reports for errors.

Finding 8: A 35 Hour scheduled employee for the Water Department regularly works 40 plus hours.

A Water Department employee regularly works a forty plus hour work week, yet he is in the city Budget and the AS400 system as a thirty five hour per week employee. Therefore, he is paid weekly at least five hours of overtime pay. His first five hours of overtime are paid at straight time out of the department's overtime budget and any additional overtime is paid at time and a half.

In the city budget, his pay is listed as if he only works thirty-five hours per week; therefore the budget does not correctly reflect the standard costs of his employment.

If an employee works 40 hours every week, the position should be a 40 hour a week position. This regular occurrence is not consistent with the city Personnel Policy and Procedures regarding overtime. ¹

¹ Article 4 of the Manual addresses overtime: "It is the policy of the City of Albany that overtime work is to be held to a minimum, consistent with the needs and requirements of sound and orderly administration of City government. However, in cases of extreme emergencies when assignments cannot be completed within the basic workweek, overtime may be authorized at the discretion of the department head."

The budget book salary should reflect the normal hours worked and the cost of employing the employee.

Recommendation

Review the requirements of the position and determine whether or not the position should be changed to 40 hours a week.

The Water Department should accurately report the employee's costs to the Budget Office.

APPENDIX 1-A

Management Response



**CITY OF ALBANY
OFFICE OF THE TREASURER
ROOM 109
24 EAGLE STREET
ALBANY, NEW YORK 12207
TELEPHONE (518) 434-5036**

**KATHY M. SHEEHAN
CITY TREASURER**

Memorandum

To: Leif Engstrom, Chief City Auditor
From: Kathy M. Sheehan, City Treasurer 
Re: Response to Final Draft Payroll Audit
Date: September 5, 2013

Thank you for providing us with a copy of the final draft of the payroll audit conducted by the Office of Audit and Control (OAC). We are writing to provide formal comments to the audit findings applicable to the Payroll Office.

1. Finding 2: The Payroll Office's internal policies and procedures are not indexed or compiled into a manual.

We concur with this finding and recommendation. We are in the process of finalizing an index for the electronic instructions utilized by the Payroll Office for processing payroll. We have had a formal written policy in place for lost or destroyed checks for two years, but the failure of the Payroll Office to provide the OAC with a copy of this policy demonstrates the need for an effective index of the office's procedures.

2. Finding 3: Confidential employee information is included on payroll reports and other documents.

We concur that social security numbers should not be distributed on any report absent a valid reason, but we do not believe that the Payroll Office improperly included confidential employee information on payroll reports. During the time period covered by this audit, the Payroll Office provided records containing social security numbers to the OAC. The OAC certifies payables to the Treasurer's Office and historically payroll reports provided to the OAC for this purpose contained social security numbers. It was reasonable for the Payroll Office to believe it needed to provide this information for audit purposes and to expect that the OAC would safeguard these reports. As soon as the OAC informed Payroll that it did not require social security numbers, we removed them from the reports.

In addition, three printed reports showing deductions made on behalf of employees for union dues, MetLife and the United Fund also contained social security numbers. These entities required this information for record keeping purposes. As a result of the audit, we have contacted each entity to determine if there is an alternative to using social security numbers. They have agreed to accept reports containing only the last four digits of employee social security numbers on a test basis. Notwithstanding this potential improvement, we do not believe the Payroll Office acted improperly with respect to securing confidential employee information.

We agree all departments should review their reports and records to ensure that confidential information is not inappropriately disseminated.

3. Finding 6: Late payment of withholding tax.

We concur with this finding and recommendation. Immediately after this incident, we implemented a procedure to prevent this from occurring again. In addition, we have applied for and expect to receive a credit from the IRS for the late fee.

4. Finding 7: Social Security and Medicare Taxes were not withheld on two city employees.

We concur with this finding and recommendation. We would like to make it clear that the OAC did not identify these errors prior to them being corrected by the Payroll Office. The Payroll Office discovered and corrected these errors outside the scope of this audit. The OAC identified this finding by reviewing the documentation of those corrections.



CITY OF ALBANY
STATE OF NEW YORK
OFFICE OF THE MAYOR
12207

GERALD D. JENNINGS
MAYOR



September 9, 2013

City of Albany Response:

The City of Albany thanks the City Auditor for his work on this Audit and accepts the findings of the Report. The Audit Report highlights that City Policy is to “record hours worked and leave used “and” that overtime work is to be held to a minimum”. City Management has consistently sought to vigilantly maintain these important policies. All departments and all supervisors in these departments have specific practices, as noted in the Audit, to track each workers time. The Audit Report found there were very few instances without appropriate controls.

City Management recognizes the importance of staying current with technology and the burdens of implementing large scale new systems (see N.Y.C. Time Management Program). To that end, the City hired a new Technology Director and, as a high priority, a directive to implement and integrate a new computerized time management system. Previously, as noted in the Audit, several departments have implemented some aspects of computer based systems. The existing city-wide system, the AS400, has payroll and time functions that are somewhat limited, but most departments, including DGS, which is mentioned in the Audit, do track some workers time and attendance via their computer systems. The Water Department has already begun using the “biometric time system” and DGS is next scheduled to implement this system in unison with the Time System upgrade being designed by the Director of Technology.

Further, while acknowledging technology upgrades are important, and noting that the Audit found the DGS system currently in use is outdated, the Audit only identified a minor instance of possible error. This finding substantiates the fact that management accurately tracts time for employees.

The Administration’s specific responses to the Audit findings are as follows:

Finding 1:

City Policy requires all employees to maintain a record of hours worked and leave used. All departments comply with this requirement. Requiring salaried employees not entitled to overtime to record actual time worked beyond scheduled time would potentially create, in the opinion of the Law Department, an obligation to compensate some employees for the extra time worked. The Audit recommendation, in this regard, is in error.



CITY OF ALBANY
STATE OF NEW YORK
OFFICE OF THE MAYOR
12207

GERALD D. JENNINGS
MAYOR



Findings 4&5:

There was no finding that the existing time system is being misused, or that there is any systemic inaccurate reporting; quite the contrary, as numerous departmental controls are in place.

That being said, the City's new Chief Information Technology Officer, has prepared an RFP for a City-wide Enterprise Resource Planning System that will include a new City-wide timekeeping system for all department, including DGS.

Finding 8:

The Water Department accepts this recommendation.



CITY OF ALBANY
Office of Audit and Control

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September 9, 2013

Response to City Management:

Thank you for your management response to the Payroll Audit and thank you for your departments' cooperation in this effort.

I would like to say that our discussions regarding Finding 1 have been productive, very timely and should continue. As you stated in your response to Findings 4 and 5, the Chief Information Technology Officer is preparing an RFP for a new Enterprise Resource Planning (ERP) computer system including a timekeeping function for all departments. As the City moves forward with this very necessary upgrade, important decisions will need to be made about the recording of each employee's time worked. Before a new ERP system is implemented, I encourage the Personnel Office to work with the Law Department to assess, for each employment class, any potential risk of an obligation to compensate salaried employees for extra time worked. Proper classification of exempt employees combined with appropriate City policies should minimize this risk for the City.

Leif Engstrom
Chief City Auditor