



CITY AUDITOR'S OFFICE

TO: Mayor and Council Members
THRU: Margaret Krym, City Auditor *MK*
FROM: Kathy Magaw, Assistant City Auditor *CM*
DATE: September 16, 2015
SUBJECT: Timekeeping Audit

Attached for your review is a copy of our report on the Timekeeping Audit.

The audit resulted in fourteen findings. Four findings were pertinent to the policies and procedures, monitoring of balances and overtime, four with the time approval process, one with training, segregation of duties, span of timekeeper responsibility, employee awareness of changes made to their time, compensatory time policy and, approval process. Management has prepared their responses to the specific findings and these are included in the body of the report.

During the course of this audit, the Timekeepers throughout the City of Cape Coral are to be commended on their cooperation. We also would like to express our sincere gratitude for the Payroll Supervisor who attentively assisted us.

We also wish to thank the Departments for their assistance. Should you have questions or need clarification, please do not hesitate to contact Margaret Krym at 242-3380.

C: John Szerlag, City Manager
Mike Ilczyszyn, Assistant City Manager
Victoria Bateman, Financial Services Director
Steve Neff, Public Works Director
Jeff Pearson, Utilities Director
David Newlan, Deputy Chief of Police
Lisa Sonogo, Human Resource Director
John MacLean, ITS Director
Stephen Pohlman, Parks and Recreation Director
Dolores Menendez, City Attorney
Rebecca van Deutekom, City Clerk
Audit Committee



CITY AUDITOR'S OFFICE

Timekeeping Audit

September 16, 2015

EXECUTIVE SUMMARY

During this audit engagement we evaluated relevant payroll data looking for potential indications of fraudulent activity, evaluated internal controls employed to prevent abuse and evaluated compliance to City policies. We began with the following objectives:

- Analyze and evaluate the data regarding manual edit adjustments to timekeeping activity to identify any trends or patterns that may suggest inappropriate activity.
- Review department internal controls currently in place to safeguard against inappropriate activity and determine the adequacy of these controls.
- Analyze and evaluate the data regarding the banking of Compensatory Time to identify any trends or patterns that may suggest abuse of policy.

During our review we did not identify any indications of fraudulent activity, however, we did find that the internal control structure governing timekeeping activities is vulnerable and should be strengthened. This control structure is intended to provide assurance that time worked is consistently and accurately reported and therefore accurately compensated. The existing vulnerabilities could provide opportunity for potential abuse.

We have recommended that the City centralize some aspects of the timekeeping function by strengthening the Payroll function in Financial Services, directing them to design various internal control processes and empowering them to mandate the implementation of those process in the Departments. These controls and mandated process should extend beyond the functions of the Kronos software and include requirements for supporting documentation, approvals and maintenance of records.

The findings and vulnerabilities are described within the body of the report. We made recommendations intended to mitigate the risks associated with these timekeeping vulnerabilities. They include:

- Recommendations to revise and clarify Management's intentions, policies and procedures governing Timekeeping, the Interactive Voice Recognition Timekeeping System and overtime.
- Annual required training provided to all timekeepers by the Payroll function in Financial Services.
- Clear definition and enforcement of increased segregation of duties such that employees may not edit their own time.
- Review, evaluate and balance the number of employees assigned to each timekeeper.

We also found a number of control vulnerabilities regarding the use of compensatory time ranging from the lack of a clear governing policy to the lack of adequate monitoring of banked compensatory hours. We made additional recommendations regarding these controls including:

- Recommendations to revise and clarify Management's intentions, policies and procedures governing Compensatory Time.

- A recommendation to include all overtime worked in management overtime governance practices and not distinguish between that overtime paid out in dollars and that overtime compensated with compensatory time.
- A recommendation to develop a control activity to allow managers and supervisors the ability to review and monitor both transactions posted to compensatory time and banked compensatory time balances.

BACKGROUND

The City Auditor's Office received eight hotline calls reporting concerns involving two aspects of timekeeping; excessive use of compensatory time and inappropriate manual adjustments made to time records. As a result of these concerns we conducted a special project investigation of timekeeping activities. We elevated that work to a performance audit because of the nature of the risks that were identified.

Payroll and related benefits are the largest expense in the City's operating budget. They include monies paid to employees and contract workers for work performed as well as those expenses that accrue to the City as a percentage of wages paid such as FICA taxes and Pension costs. The internal controls that ensure the accuracy of these costs are as essential as those protecting access to the City's cash on hand and cash disbursements because payroll transactions quickly convert to cash paid out.

For the pay period ending on July 17, 2015, gross pay equaled \$3,075,944 of which \$290,241 or 9% was paid to salaried or exempt employees. The remainder, \$2,785,703 or 91% was paid to non-exempt employees. Base pay for these non-exempt employees is calculated by multiplying hours worked times a rate of pay. Within the software database there is a rate of pay (and other compensation factors) associated with each employee. This rate of pay data is controlled centrally within the Human Resources Department and can only be accessed by a limited number of people. There are also manual controls in place to protect against inappropriate alterations to the rate of pay data.

Recording of hours worked, however, is the other factor and this is controlled by timekeepers and is decentralized in departments throughout the City. Although there is a working relationship between these timekeepers and the Payroll function in Financial Services there is not a direct reporting relationship and timekeeping processes and internal controls are not standardized across the City. Also, in most cases the employees who perform the timekeeping function have multiple job functions and timekeeping is not their only job responsibility.

SCOPE AND OBJECTIVES

We selected three departments, Parks and Recreation, Public Works and Utilities, that were known to have a significant number of manual edit adjustments made to the Kronos Timekeeping System and examined the timekeeping manual adjustment activity for the 6 months from August 26, 2013 to February 26, 2014. We also reviewed compensatory time banks as of February 28, 2014 and May 31, 2015.

The purpose of our work was to evaluate the relevant data for indications of fraudulent activity, evaluate internal controls employed to prevent abuse and evaluate compliance to City policies. We began with the following objectives:

- Analyze and evaluate the data regarding manual edit adjustments to timekeeping activity to identify any trends or patterns that may suggest inappropriate activity.
- Review department internal controls in place to safeguard against inappropriate activity and determine the adequacy of these controls.
- Analyze and evaluate the data regarding the banking of Compensatory Time to identify any trends or patterns that may suggest abuse of policy.

METHODOLOGY

The following methodologies were employed during the audit:

- Utilized data analytical software to analyze the timekeeping edit adjustments made during the selected time period and identified:
 - Timekeepers who made the most edits.
 - Employees with the most edits made to their time.
 - The most commonly made edit adjustment types.
- Interviewed a selected sample of timekeepers to review their timekeeping processes and evaluate the internal controls in place.
- Using a judgmental sample, tested timekeeping transaction edits and examined supporting documentation to evaluate:
 - Sufficiency of supporting documentation.
 - Completeness of required approvals.
 - Sufficiency of separation of duties.
- Utilized data analytical software to analyze banked compensatory time hours for various dates.
- Reviewed compliance to policies and procedures related to timekeeping.

This audit was neither designed nor intended to be a detailed study of every relevant system, procedure or transaction. Accordingly, the opportunities for improvement presented in this report may not be all-inclusive of areas where improvement may be needed. Although we exercised due professional care in the performance of this audit, and were alert to look for fraud, indicators of fraud or specific cases of abuse we did not identify any. This should not be construed to mean that unreported noncompliance or irregularities do not exist. The deterrence of fraud is the responsibility of management.

STATEMENT OF AUDITING STANDARDS

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. Also, the audit includes assessment of applicable internal controls and compliance with requirements of laws

and regulations when necessary to satisfy the audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

EVALUATION OF MANAGEMENT'S INTERNAL CONTROL SYSTEM

Management bears the responsibility to provide a planned and intentional control structure that will provide reasonable assurance that risks related to payroll are mitigated and payments made for payroll are accurate. To be considered sufficient, the following elements should be present:

- Control Environment – Management's awareness of the need for a control system and the communication of this need with an attitude and awareness that sets the tone for the organization. This provides discipline and structure.
- Risk Assessment – Relevant risks that impact compliance are identified, evaluated and used as the basis for determining how to manage and mitigate risks.
- Control Activities – Actions established by Management through policies and procedures. These intended control activities are designed, documented and effectively communicated to staff.
- Information and Communication – Usable, relevant information is captured and exchanged in a form and time frame that allows employees to effectively carry out their duties.
- Monitoring – Activities Management establishes and operates to assess the quality of performance and to promptly resolve any detected concerns.

Exceptions and weaknesses in internal controls were identified during the audit process. They are summarized here but described in more detail in the section below.

- 1) Governing policies and procedures are vague and do not provide necessary guidance.
- 2) Current practices in the time approval process are not in compliance with policy and are vulnerable.
- 3) Internal controls in the use of the Interactive Voice Response (IVR) timekeeping system are weak and not adequately governed by policy.
- 4) Some timekeepers have not been sufficiently trained.
- 5) The lack of timekeeper segregation of duties has increased risk and created opportunity for abuse.
- 6) Adjusting edits lack adequate supporting documentation.
- 7) There is a need for increased monitoring and management of overtime and compensatory time granted.

The purpose of the internal control structure for timekeeping should be to provide assurance that time worked is consistently and accurately reported and therefore accurately compensated. This internal control structure as it currently exists is vulnerable and should be strengthened.

DETAILED REPORT AND RECOMMENDATIONS

TIMEKEEPING EDITS:

For the departments of Parks and Recreation, Public Works and Utilities during the 6 months from August 26, 2013 to February 26, 2014 adjusting edits to timekeeping were stratified as follows:

Number of edits per employee	Number of employees	Total number of edits for these employees	Average edits per employee
Greater than 100	11	1,380	125
Less than 100 and more than 30	100	5,106	51
Less than 30	472	4,213	9
Total number	583	10,699	18

Number of edits per Timekeeper	Number of Timekeepers	Number of edits made by these timekeepers	Average edits per timekeeper
Greater than 300	8	7,603	950
Less than 300 and more than 100	14	2,386	170
Less than 100	31	710	23
Total number	53	10,699	202

Of these 10,699 edit adjustments made during this 6 month period, 36% (3,885) of them did not have an effect on dollars paid out. These included “Add or Delete Comment To/From Punch” and “Add or Delete Comment to/from Pay Code”.

The remaining 64% (6,814) did have an effect on dollars paid out. These edits were stratified by edit type as follows:

Edit type	Number of edits	Percentage
Delete punch	810	12%
Edit pay code	1,058	15%
Edit punch	4,946	73%
Total	6,814	100%

We interviewed those eight Timekeepers who had the highest average edits to gather information regarding their timekeeping process and the controls in place. During these interviews we were told that:

- The number of employees whose time they managed ranged from six to 100.
- Timekeeping was not the only job function for the Timekeepers.
- All of the Timekeepers told us that they require supporting documentation prior to posting an edit.
- All were able to provide us with a documented timekeeping manual provided to them by the Payroll function in Financial Services.
- Approvers did not have backup documentation available when they approved payroll each pay period.

- Timekeepers did not reconcile, review or validate payroll entries after payroll was run to ensure that employee information and cost charged to their department was correct.
- All their employees are allowed to work overtime when necessary. The overtime approval process varied by Timekeeper from prior-approval to post approval.

We used the population of edits from these eight Timekeepers to select a sample of 78 transactions for the purpose of detail testing. During our testing of the 78 transactions we observed:

	Yes	No	Total
Was there a document available to explain and evidence the reason for making the adjustment?	56 72%	22 28%	78 100%
Was there documentation that the edit adjustment was approved?	39 50%	39 50%	78 100%
Was there documentation to evidence that the employee, whose time was adjusted, authorized or agreed to the edit adjustment?	50 64%	28 36%	78 100%

For the edits we examined we observed the following reasons the edits were made:

- To change the time taken for a lunch period from the standard time to an amended time or to remove the lunch period all together. 36%
 - To adjust time for employees who are called in after hours and who use the Interactive Voice Recognition (IVR) telephone clock in system to ensure they are paid in compliance with contracts. 20%
 - To adjust time taken for unscheduled / scheduled leave and/or compensatory time paid or used. 16%
 - Employee forgot or missed their punch in or out and requested the Timekeeper to enter a punch for them. 12%
 - Reason unknown 7%
 - Timekeeper error - correcting entry 4%
 - Employee's time clock punch swipe was not picked up by the system or too many punches were entered 4%
 - Other miscellaneous 1%
- Total 100%

Related Findings and Recommendations

Recommendation #1 to #2 - Policies and Procedures

Finding #1

Administrative Regulation (AR) #15 "Hours of Work / Recording of Hours" which provides governance and guidance on how to record and track hours of work has not been updated since 2006. We found that various departments and Timekeepers are utilizing a variety of methods to document support for various adjustments. However, in some cases documentation is vague and unclear and in other cases entries are made with no supporting documentation at all.

Condition	<p>The AR is vague on some key issues regarding</p> <ul style="list-style-type: none"> • Compensatory Time, • the use of the Interactive Voice Response (IVR) system, • the required approval process for overtime, • the approval and documentation required for time edit adjustment transactions • and a definition of what serves as sufficient documentation for posted time edit transactions.
Criteria	<p>Good governance establishes policies and procedures (controls) to ensure that an organization's actions are aligned with Management's intentions. Policy and procedures establish the organization's best practices, core business process descriptions, and methods and standards for how work is performed. Clearly articulated policy and procedures ensure that staff understand Management intentions and are in compliance with them. They serve as a strong internal control.</p>
Effect / Risk	<p>Without a clearly stated policy and procedure, Management does not have reasonable assurance that the City's objectives are being achieved regarding the compliance and reliability of recorded employee time and its related compensation.</p> <p>When Policies and procedures are not enforced, Management incurs unnecessary risk. They communicate to staff that these policies lack importance and that the policies are not consistently required. It also communicates that Management may not be clearly aware of its intent and this communicates a lack of leadership. Staff may interpret that they have permission to selectively comply and Management's directives are undermined.</p>
<u>Recommendation # 1</u>	<p>We recommend that Management update AR #15 and clarify those areas that are vague and discussed in various sections of this report. We also recommend that the AR incorporate a clear definition of what constitutes required documentation and approval for time edits / adjustments and how that documentation is to be filed and retained.</p>
<i>Management Response</i>	<p><i>Finance will update AR #15 to provide the needed clarification and definitions.</i></p>

Finding #2	<p>Numerous hotline calls were received reporting abuse of the usage of the IVR system. During our transaction testing we learned that use of the IVR system was one of the primary causes for edits. We found limited documentation when we looked for documented guidance on how and when to use the IVR system.</p> <p>When we reviewed those individuals who do have IVR access we found one employee who was exempt and not required to clock in and out. It did not appear that the list of employees with access had been reviewed or updated. Once an employee is granted access they retain that access indefinitely.</p>
------------	--

Condition	<p>The City utilizes an Interactive Voice Recognition (IVR) Timekeeping System that allows those employees who are not near a time clock to use a telephone to clock in and out. This is useful and practical, for example, when a Utilities Department employee is called out after hours to repair a water line or when a Parks and Recreation Department employee reports to work at a special event in a remote location.</p> <p>AR #15 states only that employees working at locations without clocks may use the IVR system. In fact, once an employee is signed up for IVR access, the employee is free to use it anytime and from any telephone.</p>
Criteria	<p>The IVR system is intended to accommodate those employees who are required to work in an area away from a time clock location but like any process it requires policy and procedures and management controls to provide governance and protect against abuse. Documented policies and procedures provide clear direction as to management's intentions and significantly increase the likelihood that these intentions will be obeyed.</p>
Effect / Risk	<p>When Policies and procedures are not in place, Management incurs unnecessary risk. They communicate to staff that policies lack importance and that policies are not consistently required. It also communicates that Management may not be clearly aware of its intentions regarding the use of the IVR. Staff may interpret that they have permission to use the system as they wish which may lead to abuse.</p>
<p><u>Recommendation</u> <u># 2</u></p>	<p>We recommend that staff develop documented policies and procedures to control and govern the use of the Interactive Voice Recognition Timekeeping System. These should include sufficient internal controls to govern IVR usage and to include clear criteria defining what positions/jobs require IVR access, and periodically assessing whether access is still necessary. Those no longer requiring access should be removed. The listing of employees with access should be regularly reviewed and purged.</p> <p>Since we have had numerous hotline calls indicating possible abuse of this system, we also recommend that controls include a heightened level of supervisory review of time worked for IVR users. This review should be documented and the documentation retained for review.</p> <p>Additionally, we suggest that staff consider modifying the IVR system to limit access for an eligible employee to a specific telephone number in the intended area of work if possible. For example park locations may have telephone lines installed that Parks and Recreation employees might use when reporting for work at that remote location.</p>
Management Response	<p><i>Finance and IT are checking into the possible purchase of Kronos mobile GPS IVR system. This would associate calls with the employee's GPS location. We will also look into separate lines for Departments.</i></p> <p><i>Staff will develop the needed policies and procedures for IVR use.</i></p> <p><i>Staff will work with the Director's on a list of positions that should use IVR.</i></p>

Recommendation #3 to #6 - Time Approval Process

Finding #3	<p>During interviews with Timekeepers, we found that the payroll timekeeping process was not uniform throughout the City and controls were not consistently understood or applied.</p>
Condition	<p>The payroll process, like many other processes within the City, has been decentralized and authority has rested with Department Directors. This has resulted in a variety of interpretations for the timekeeping process. Additionally, Timekeepers report to their Department leadership and the Payroll function in Financial Services has not had the overall responsibility for defining and dictating timekeeping internal controls.</p> <p>Vulnerabilities within the control process governing timekeeping included:</p> <ul style="list-style-type: none"> • Payroll approvers do not have supporting documents available at the time they approve payroll in the Kronos System each pay period. Although the approver may have signed the original supporting document there is no assurance that a change was not subsequently made. • Timekeepers do not review or reconcile timekeeping data after payroll is run to verify the accuracy of payroll. This was a recommendation made by Clifton Larson Allen in the Internal Control Review - Payroll Audit. The City has developed a report for this purpose called the "Compensation Report" and made it available for Timekeepers, however it is not being used and its availability has not been communicated to Timekeepers.
Criteria	<p>Strong internal controls dictate that approvers have information available to make informed decisions at the time they grant their approval.</p> <p>Strong internal controls include a reconciliation process to verify the accuracy of data when possible.</p>
Effect / Risk	<p>Approvers who do not have supporting documentation may approve erroneously reported time. When varying individuals design their own methods for documenting and recording time, there is no assurance that standardized internal controls will be a part of that process.</p> <p>The Compensation Report was designed to provide feedback data to Timekeepers that they could use to verify that their entries were appropriately recorded. Within the current process once they release a pay period they have no assurance that it was processed correctly.</p>
<u>Recommendation # 3</u>	<p>We recommend that the timekeeping activities be defined in an internal control process designed centrally by the Payroll function in Financial Services and that it be mandated to the various department Timekeepers. It should clearly articulate that an approver is attesting to the accuracy of recorded time and should have supporting documentation available at the time of approval for the purpose of reconciling all adjusting edits.</p>
<i>Management Response</i>	<p><i>Finance will update AR 15 to include recommended controls.</i></p>

Finding #4	<p>During our transaction testing in Public Works, Utilities and Parks and Recreation we found that tests of 78 transaction edits showed that 22 did not have adequate supporting documentation. We observed examples where the supporting documentation for an edit was vague and it was difficult to tell what the appropriate edit should have been. We also found edits that were not supported with back up documentation at all and four where we were unable to ascertain a reason for the edit.</p>
Condition	<p>The control processes governing the timekeeping functions have not been clearly defined. Various departments have created their own standards and methods for documenting and capturing the necessary data needed for making adjusting entries to timekeeping records. These methods vary and some are not sufficient to provide a strong control environment.</p> <p>A primary cause of the timekeeping edit adjustments we observed was to remove or amend a lunch deduction transaction. Of the 41 edit adjustments we examined in Parks and Recreation 16 were to adjust or delete a lunch period deduction. The documentation to support these adjustments consisted of emails and other information which contained inconsistent information and was frequently vague and difficult to understand.</p> <p>We observed leave slips where approved leave requests did not match time deducted in Kronos and were incomplete and did not indicate any category for time taken, (scheduled leave, unscheduled leave, comp time, etc.)</p> <p>We also found that each Timekeeper had developed a different method for filing and storing timekeeping supporting documentation. Methods for retrieving this documentation were therefore various.</p>
Criteria	<p>Internal controls are intentional and are dictated by Management to ensure that their directed activities will be achieved.</p> <p>The standards for internal control in the Federal Government (Green Book) specify that appropriate control activities should include <i>Appropriate documentation of transactions and internal control</i>. Specifically it states: <i>“Management clearly documents all transactions and other significant events in a manner that allows the documentation to be readily available for examination. Documentation and records are properly managed and maintained.”</i></p>
Effect / Risk	<p>Without adequate documentation it is not possible to verify the accuracy of entries. This increases the risk that inappropriate entries may be made.</p>
<u>Recommendation # 4</u>	<p>We recommend that internal control processes governing timekeeping be strengthened by clearly defining in centralized written policies and procedures what documentation must be provided and retained to clearly support every edit adjustment type made by timekeepers. We also recommend that this documentation be retained in a systematic and uniform filing method such that retrieval may be accomplished by any trained Timekeeper within the City.</p>

<i>Management Response</i>	<i>Same response as for #3.</i>
----------------------------	---------------------------------

Finding #5	AR #15 defines required approvals for various types of adjustments to Kronos System entries. We observed noncompliance to these policy requirements and inconsistency in approvals obtained and the timing of obtaining approvals.
Condition	AR #15 requires written approval from a supervisor prior to entering a forgot/missed/added to punch in or out. We saw emails used to document these adjustments that were sent from the employee directly to the Timekeeper without evidencing a supervisor approval. Resulting in 39 of the 78 transactions we examined did not show evidence of supervisory approval.
Criteria	<p>AR #15 requires that some adjustments to entered time be documented on a "Kronos Time Adjustment Form" and approved by the Financial Services Director. We examined 78 transaction edits and we did not observe any instance where the Financial Services Director approved the adjustment.</p> <p>AR #15 Section 5.3 Adjustment to Kronos Records by Time-Keepers states, "A general operating principle is that no employee is allowed to make changes to another employee's Kronos time stamp without the full cognizance and agreement of the employee. Any such change must be documented with the "City of Cape Coral Kronos Time Adjustments" Form which must be signed off by the Financial Services Director."</p> <p>Regarding missed punches, AR #15 further states, "The correct procedure is for the employee to obtain written approval from his or her supervisor for the appropriate time-keeper to add in the missing punch."</p>
Effect / Risk	<p>Timekeepers have been asked to assume the responsibility for making time entries that they know are in noncompliance to AR #15. This communicates to staff that the policy lacks importance and is not consistently required. It also communicates that Management may not be clearly aware of its intent and this communicates a lack of leadership. Staff may interpret that they have permission to selectively comply and Management's directives are undermined.</p> <p>Additionally, this heightens the risk that time will be misreported.</p>
<u>Recommendation # 5</u>	We recommend that the approval processes for edit adjustments be reviewed and either the policy be revised or staff actions be made compliant to the policy. We do recommend that Timekeepers not be asked to make judgment calls regarding the appropriateness of edit adjustments. These adjustments should not be entered without the documented approval of a supervisor.
<i>Management Response</i>	<i>Same response as #3.</i>

Finding #6	The current practice for approving planned or scheduled overtime is not in compliance with AR #58.
Condition	We confirmed with the City Manager's Office staff that no overtime requests are being sent to the City Manager's Office for approval despite an AR policy requiring this control.
Criteria	AR #58 states that" <i>Overtime must only be incurred when it is absolutely necessary. Every department should establish a written program for overtime management and monitoring</i> " And " All planned or scheduled overtime requests must be submitted to the City Manager for formal review and approval, at least three full business days prior to the proposed date of use. "
Effect / Risk	When Policies and procedures are not kept current and enforced, Management incurs unnecessary risk. They communicate to staff that these policies lack importance and that policies are not consistently required. Staff may interpret that they have permission to selectively comply and Management's directives are undermined.
<u>Recommendation # 6</u>	We recommend that AR #58 addressing the approval of overtime be revised to reflect Management's intentions and that the resulting policy be enforced. We further recommend that more emphasis be placed on departments establishing written programs for management and monitoring of overtime and that these programs include the management and monitoring of Compensatory time granted in lieu of overtime pay as well.
<i>Management Response</i>	<i>Finance will coordinate with HR to incorporate Management's intentions. We will also require Department's to establish and monitor their overtime programs.</i>

Recommendation #7 - Training

Finding #7	A "backup Timekeeper" had 1190 manual edits made to timekeeping during a 6 month period. When interviewed she was vague with her responses and did not appear to be knowledgeable on the role of timekeeper.
Condition	Resources available to train Timekeepers are limited and training has not been a priority.
Criteria	Competency is required to perform job functions. If Management assigns a job function to an employee it is Management's responsibility to ensure that adequate training and guidance on how to perform that function is provided. It is also Management's responsibility to monitor performance. If training is provided and the employee is still not able to perform the job satisfactorily then the employee should be replaced to ensure that the job is completed accurately and appropriately.
Effect / Risk	The timekeeping function is complex and requires great attention to detail. The outcome of the timekeeping function impacts the compensation of

<p><u>Recommendation # 7</u></p>	<p>individual employees therefore errors may have a significant impact on employee morale and could impact labor cost to the City.</p> <p>We recommend that the Payroll function in Financial Services provide training to all Timekeepers and their backups. This training should be updated and repeated annually in order to reinforce mandated policies and controls.</p>
<p><i>Management Response</i></p>	<p><i>Finance will develop a training program for timekeepers and provide annually. We will work with IT to see if we can develop an online course.</i></p>

Recommendation #8 – Segregation of duties

<p>Finding #8</p>	<p>There were no restrictions to prohibit a Timekeeper from editing and adjusting their own time entries.</p>
<p>Condition</p>	<p>During our transaction testing in Public Works, Utilities and Parks and Recreation we found several Timekeepers entered edits to their own time and one entered edits to her husband’s time. In one case that included delete punches. We also observed one supervisor that adjusted her own time.</p>
<p>Criteria</p>	<p>We observed one Timekeeper who had the timekeeping responsibility for 8 employees and during the 6 months examined made 319 edit adjustments, 98 of which were to her own time. Many of these were supported by emails to her supervisor; however these notifications were vague and lacked specificity.</p>
<p>Effect / Risk</p>	<p>The standards for internal control in the Federal Government (Green Book) specify that appropriate control activities should segregate duties where applicable. Specifically it states: <i>“Management divides or segregates key duties and responsibilities among different people to reduce the risk of error, misuse, or fraud. This includes separating the responsibilities for authorizing transactions, processing and recording them, reviewing the transactions, and handling any related assets so that no one individual controls all key aspects of a transaction or event.”</i></p> <p>When one individual has control over their own timekeeping record and when the approval process controls are weak, it would be possible to overlook an error or misuse the system or commit a fraud that may go undetected.</p>
<p><u>Recommendation # 8</u></p>	<p>We recommend that no one have the ability to post time edit adjustments to their own time. In cases where this simply cannot be avoided (very small departments where there are no other staff members available to perform this function) then we recommend that documentation to support every edit adjustment is reviewed and verified during the payroll approval process by the designated approver. This review and verification should be documented and the documentation retained.</p>
<p><i>Management Response</i></p>	<p><i>Finance will incorporate the recommendation when updating AR #15.</i></p>

Recommendation #9 – Span of Timekeeper Responsibility

Finding #9	Timekeeping responsibilities were assigned to Timekeepers such that some Timekeepers were challenged in their ability to accurately perform this job function.
Condition	We observed disparity in timekeeping job functions. One Timekeeper who is a CSR I (whose job description had no timekeeping responsibilities listed) has the responsibility to record time for 99 employees. A different timekeeper who is a CSR II (who's job description had no timekeeping responsibilities listed) has the responsibility to record time for only 8 employees. Also, timekeeping is not their only job responsibility. There is a wide range of difference between the number of employees and complexity of timekeeping issues assigned to each Timekeeper. It appeared that the span of employees that some Timekeepers are responsible for, coupled with their other job responsibilities, may be too large and overwhelming.
Criteria	Best practices dictate that it is Management's responsibility to ensure that individual employee workloads allow employees to perform their job functions accurately and in accordance with internal control guidelines. It is also Management's responsibility to create a job classification structure that recognizes and rewards employees based on the complexity level of their job function. Job functions should be clearly stated in job descriptions.
Effect / Risk	The accuracy of data in recorded time may be negatively impacted if Timekeepers are overwhelmed by the workload of their job assignment.
<u>Recommendation # 9</u>	We recommend that the number of employees assigned to each Timekeeper be re-evaluated and balanced with other assigned job responsibilities. We also recommend that timekeeping responsibilities be clearly stated in job descriptions.
<i>Management Response</i>	<i>Finance will incorporate the recommendation when updating AR #15</i>

Recommendation #10 – Employee awareness of changes made to their time

Finding #10	A Timekeeper was directed to enter scheduled leave if/when an employee's reported time was less than 80 hours per pay period even though the employee had not provided explanation or documentation to support a leave bank deduction. This procedure resulted in a deduction to the employee's leave bank hours without the employee's knowledge or approval.
Condition	It has been the desire of Managers and Supervisors to ensure that all employees are paid a full 80 hours each pay period. When Timekeepers have not been timely provided sufficient information and documentation it has been Management's desire to accommodate the needs of the

<p>Criteria</p> <p>Effect / Risk</p> <p><u>Recommendation #10</u></p>	<p>Timekeepers to complete their posting responsibilities prior to deadlines. Therefore, some have directed Timekeepers to make up any unexplained short hours by deducting time from an employee's leave bank. This practice has enabled some employees to be inconsistent about reporting their time and to avoid their responsibility to provide complete information timely.</p> <p>In best practice an employee's authorization should be obtained prior to deducting hours from his leave bank. AR #15 Section 5.3 Adjustment to Kronos Records by Time-Keepers states, "A <i>general operating principle is that no employee is allowed to make changes to another employee's Kronos time stamp without the full cognizance and agreement of the employee.</i>"</p> <p>This practice of supplementing missed time using an employee's leave bank has enabled some employees to be slow and inconsistent when reporting their time and it has actually created a hardship for Timekeepers who do not want the responsibility for entering leave without authorized documentation.</p> <p>We recommend that a policy be defined to state that it is each employee's responsibility to provide, in a timely manner and in advance of the payroll end date, a documented leave request for any short hours or hours not recorded as worked. Employees should be advised that if this documentation is not received in a timely manner then they will only be compensated for the hours that are recorded.</p> <p>It should not be up to the Timekeeper to arbitrarily create an adjustment to deduct leave without adequate documentation. It should also not be the Timekeeper's responsibility to chase employees for documentation.</p>
<p><i>Management Response</i></p>	<p><i>Finance will incorporate the recommendation when updating AR #15.</i></p>

COMPENSATORY TIME:

AR #15 and the Fair Labor Standards Act (FLSA) require that employees subject to the provisions of the FLSA be paid overtime for hours worked in excess of 40 hours during their normal work week.

AR #15 and FLSA allow for an exception to the payment of overtime when there is mutual agreement between an employee and the City. This exception allows the City to grant the employee compensatory time off in lieu of overtime at the rate of 1 ½ hours off for every hour of excess work. Therefore overtime worked may be paid with cash compensation in the pay period end paycheck or it may be paid with credited compensatory time off. Either way it is overtime worked and therefore should be subject to the same policies and government practices in place to manage overtime.

Further, AR #15 states the following about when this compensatory time off must be taken:

"Any such compensatory time must be used by a non-exempt employee no later than:

a) *The last day of the second bi-weekly payroll period after the bi-weekly payroll period in which such "compensatory" time was earned. The Director of each department shall assure that any "payout" of "compensatory" time under this provision is timely processed; or*

b) *The effective date of any change in status that would vary the employee's regular hourly rate from what it was when such "compensatory" time was earned.*

"Compensatory" time not used at the time of an employee's termination from employment shall be "paid-out" at the hourly rate being earned at the time of termination.

The Director of each department shall assure that any "payout" of "compensatory" time under these provisions is timely processed."

Including the word “or” between item a) and b) has caused this policy to be ambiguous regarding the intended and/or required time for payout of compensatory time. The policy suggests that Management may have intended that compensatory time was to be used “timely” within a few weeks of its accrual. However, in practice, Management has allowed employees to bank compensatory time and carry it forward year over year, even past year end limitations for leave bank accruals.

Additionally, the Payroll function of Financial Services has been required to create a method for extracting compensatory time banked hours from the Kronos payroll system and a process has inadvertently grown up within the City to track and manage banked compensatory time hours. However, this process is not governed by documented policies and procedures.

Compensatory time is being used by some departments in lieu of overtime but it is not governed by AR #58 the Overtime Management policy. AR #58 only states, *“It is a violation of the FLSA to schedule the employee for time off in a different work week in lieu of payment of overtime. However, when there is mutual agreement between an employee and the City, compensatory time may be given in lieu of overtime compensation. Compensatory time is governed by Administrative Regulation Number 15.”*

During the period of our review we observed the following changes in the balances of banked compensatory time:

	2/28/14	5/31/15	Change
Total hours of banked compensatory time – Citywide	7,892	9,694	Increase of 1,802
<hr/>			
Total hours of banked compensatory time for Police	6,068	8,645	Increase of 2,577
Total hours of banked compensatory time for the Utilities Department	635	79	Decrease of 556
Total hours of banked compensatory time for all others	1,189	970	Decrease of 219

The Police Department was outside of the scope of this audit work, however we met with the leadership of the Police Department to discuss the causes for the increase in banked compensatory time hours in their department and we learned the following:

- The Police Department monitors and reports compensatory time along with overtime. Department leadership regularly reviews all overtime worked including that overtime paid with compensatory time. We observed their reporting and tracking of this overtime use and their monitoring process is commendable. Management was well informed regarding their overtime usage without having to inquire of their staff.
- They advised us that during the period between 2/28/14 and 5/31/15 they have had staffing challenges and have struggled to fulfill their commitments to keep the required numbers of patrols on duty. This has meant that staff has not been allowed to use their compensatory time (or leave time). Therefore banked hours have increased. The department is currently training new recruits that will allow them to turn this around and reduce these banked hours.

Parks and Recreation, Public Works and the Utilities Departments all improved their governance practices regarding the use of compensatory time during the period between 2/28/14 and 5/31/15 and reduced their banked hours. However there is still room for process improvement as is noted in the recommendations that follow.

Related Findings and Recommendations

Recommendation #11 – Compensatory Time Policy

Finding #11	AR #15 governing the use of compensatory time was vague and therefore was being administered inconsistently.
Condition	<p>The policy governing compensatory time is vague regarding a required time for the use of compensatory time. It is not clear if compensatory time granted in lieu of overtime is intended to be taken within a defined period or banked and carried as additional leave time.</p> <p>Also, we did not observe a mechanism in place to ensure that compensatory time would be paid out prior to an increase in an employee’s hourly rate as required by AR #15.</p> <p>Additionally, the City’s policy and the law stipulate that compensatory time cannot be imposed instead of overtime pay unless an employee agrees. That agreement may be in the form of a union agreement, however if the compensatory time is granted to a non-bargaining employee there is no evidence gathered to indicate that the employee gave his consent to receive compensatory time instead of an overtime payment.</p>
Criteria	Good governance practice requires that leadership make their intentions clear in documented policies.
Effect / Risk	If Management’s policies governing the granting and use of compensatory time are not clear and aligned with law then the City may be exposed to abuse in the use of compensatory time and/or violations of law and penalties.

Recommendation #11

Additionally, because Management intentions requiring the use of compensatory time are not clear, compensatory time banks have been created and these have become an additional administrative burden on staff as they should be tracked, monitored and managed.

If employee hourly rates increase and banked hours are paid out at a rate that is higher than the rate at which they were earned then the City will incur unintended increased costs.

We recommend the following corrective activities:

- Management review compensatory time policies to ensure that they comply with current law.
- The compensatory time policy be revised to ensure that any compensatory time granted in lieu of overtime be requested or acknowledged by the employee, preferably in a written document that is signed by the employee. Compensatory time cannot be unilaterally imposed.
- The compensatory time policy, clearly state what the “workweek” is and when an employee's work time is eligible to be defined as overtime. It may matter for employees who are light on hours during the week but work on the weekend.
- The compensatory time policy clearly state management's intentions regarding the use of compensatory time. Is it to be taken no later than the last day of the second bi-weekly payroll period after the bi-weekly payroll period in which such "compensatory" time was earned? Or is it management's intention that employee's earning compensatory time may bank that time and use it at their discretion?
- If it is Management's intention to allow employees to bank compensatory hours and carry them from period to period and from year to year, then we also recommend that a mechanism be put in place to enforce the policy that compensatory time be paid out prior to the effective date of any change in status that would vary the employee's regular hourly rate from what it was when such "compensatory" time was earned.

Management Response

Finance will work with HR to incorporate recommendation when updating AR #15.

Recommendation #12 – Approval Process

Finding #12

Overtime worked and reported as compensatory time was not subject to an approval process in the same manner as overtime worked and paid.

Condition

For the most part, staff has not viewed time worked and compensated with compensatory time as overtime and therefore subject to the policies and procedures governing overtime.

Overtime worked and compensated with compensatory time is not always approved either prior to or after earning. We have observed employees

Criteria	<p>who regularly worked time in excess of their 40 hour week and received regular small amounts of compensatory time that was not governed by AR #58.</p> <p>AR #58 Overtime Management states the following:</p> <p><i>“Overtime must only be incurred when it is absolutely necessary. Every department should establish a written program for overtime management and monitoring. Such a program should include:</i></p> <ul style="list-style-type: none"> • <i>An emphasis on employee productivity during the work day to maximize efficiency and minimize the need to work overtime to accomplish what could have been performed during the normal workday.</i> • <i>A successive layer of oversight into the overtime approval process.</i> • <i>Documented quarterly review of departmental overtime usage.</i> • <i>Follow-up and disciplinary measures to ensure compliance.”</i> <p>AR #15 Hours of Work / Recording of Hours states the following:</p> <p><i>“Working overtime without prior authorization from a supervisor shall be cause for disciplinary action, up to and including discharge.”</i> And <i>“Overtime for which prior approval has been secured must also be approved by the supervisor in the system.”</i></p>
Effect / Risk	<p>The City may incur increased labor costs if there are no policies in place to govern the use of compensatory time. Additionally, if the City does not clearly define compensatory time granted in lieu of overtime as overtime then it will not be governed as aggressively as overtime and this could lead to abuse.</p>
<u>Recommendation #12</u>	<p>We recommend that the City include all overtime worked in its overtime management practices and not distinguish between that overtime paid out in dollars and that overtime compensated with compensatory time. This would include any and all required approvals for the use of overtime. Management approval must be required when using compensatory time in lieu of overtime.</p>
<i>Management Response</i>	<p><i>Finance will work with HR to make the distinction in AR #58.</i></p>

Recommendation #13 to 14 – Monitoring of Balances and Overtime

Finding #13	<p>Overtime worked and reported as compensatory time was not included on overtime reports used by the Utilities Department to manage overtime.</p>
Condition	<p>City practices have historically delinked the governance of overtime and compensatory time.</p> <p>Utilities Department leadership efforts to manage and control overtime require the use of an Overtime/Stand-by Authorization Report. These are submitted each pay period and document overtime worked. We verified that this monitoring and control mechanism in the Utilities Department was not capturing information about compensatory time earned. When we</p>

<p>Criteria</p> <p>Effect / Risk</p> <p><u>Recommendation #13</u></p>	<p>advised them of this they made corrections and were able to reduce their banked balances.</p> <p>With the exception of the Police Department, we did not examine governance monitoring methods in other departments.</p> <p>AR #15 indicates that compensatory time may be granted in lieu of overtime wages. Therefore it is a form of compensation granted for overtime hours worked. Best practice would dictate that all overtime hours worked should be captured and reported using those controls intended to govern overtime.</p> <p>Because the overtime hours worked which are compensated by compensatory time have not been governed by overtime management policies and practices, they have not been included in management reports regarding overtime and therefore these reports have not presented accurate data regarding overtime hours worked and/or manpower utilization.</p> <p>We recommend that the City include all overtime worked in its overtime management practices and not distinguish between that overtime paid out in dollars and that overtime compensated with compensatory time. The Police Department currently does this and has a reporting mechanism that includes all overtime worked whether paid by dollars or time. There format could be used as a model.</p>
<p><i>Management Response</i></p>	<p><i>Finance will work with HR to make the distinction in AR #58.</i></p>

<p>Finding #14</p> <p>Condition</p> <p>Criteria</p>	<p>The reported compensatory time banked hours as of February 2014 showed that eight individuals had negative banked hours. One individual had a negative six hours banked and the remaining seven had very minor balances totaling less than 1.4 hours for them all.</p> <p>We also found that there were no standard reports available to departments to show the balance on hand in banked compensatory time.</p> <p>Although leave time is observed and monitored, compensatory time taken and/or granted is not consistently reviewed and monitored. Timekeepers do not always have the information regarding banked compensatory hours available to them at the time they are posting transactions to compensatory time. The Payroll function in Financial Services has had to convert a Kronos canned report and adapt it in order to extract balances for compensatory time. The report titles are not consistent with the data fields and therefore the report is not user friendly for Management or Department use.</p> <p>Banked hours of Compensatory Time and Leave Time are equated to a financial value payable to an employee or available to an employee in lieu of work time. The balance of hours in this bank is not intended to be negative. Employees should not be able to take time off that they have not earned.</p>
---	---

<p>Effect / Risk</p> <p><u>Recommendation #14</u></p>	<p>The risk associated with these negative balances is negligible; however negative balances in the compensatory time bank are an indication that the balances are not monitored. This lack of monitoring presents a greater risk and is an indication that there is a lack of governance related to Compensatory time.</p> <p>We recommend that a control activity be designed and implemented to allow managers and supervisors the ability to review and monitor transactions posted to and balances on hand related to Compensatory Time. The recommended objective for this control activity would be to ensure management that Compensatory Time (like overtime) is being used effectively, efficiently and with the knowledge of Managers and Supervisors. Also that this use is approved and in the best interest of City business purposes. The control activity should be preventive (at the time that transactions are being posted) and/or detective in nature (monitoring transactions and balances on hand after posting.)</p>
<p><i>Management Response</i></p>	<p><i>Finance will coordinate with IT to develop a report for Directors/Managers to use for such monitoring.</i></p>