

Review of Payroll System

January 2014



**CITY AUDITOR'S OFFICE
CITY OF GAINESVILLE, FLORIDA**

City of
Gainesville

Inter-Office Communication

January 29, 2014

TO: Audit, Finance and Legislative Committee
Mayor Ed Braddy, Chair
Mayor-Commissioner Pro Tem Randy Wells, Member

FROM: Brent Godshalk, City Auditor

SUBJECT: Review of Payroll System

Recommendation

The Audit, Finance and Legislative Committee recommend the City Commission:

- 1) Accept the City Auditor's report and the response from the City Manager, and
- 2) Instruct the City Auditor to conduct a follow-up review on recommendations made and report the results to the Audit, Finance and Legislative Committee.

Explanation

In accordance with our Annual Audit Plan, the City Auditor's Office has completed a Review of the Payroll System. The primary objective of this audit was to evaluate the system of management control over the processing of City payroll transactions in order to determine whether internal control practices are effective for properly recording, maintaining and managing payroll transactions and for ensuring that payroll transactions are accurate, authorized, approved and adequately monitored. Our procedures included interviewing key staff involved in the payroll and timekeeping process; observing operations related to payroll processing and employee sign-in procedures; reviewing management controls; testing selected samples of transactions and supporting documentation; and performing other procedures deemed necessary.

Based on the results of our review, we believe there is general compliance with applicable City payroll, personnel and timekeeping practices to provide reasonable assurance that payroll transactions are accurate, authorized, approved and monitored. However, we identified several areas where opportunities exist for strengthening controls over the payroll system. The attached report provides recommendations related to modifying payroll and timekeeping practices to reduce errors and improve the timeliness of wages paid, improving procedures related to new hires and rehired retirees, improving the coordination and efficiency of payroll processing, improving collection procedures for terminated employee training costs and modifying payroll reports.

We request that the Committee recommend the City Commission accept our report and the City Manager's response. Also, in accordance with City Commission Resolution 970187, Section 10, Responsibilities for Follow-up on Audits, we request that the Committee recommend the City Commission instruct the City Auditor to conduct a follow-up review on recommendations made and report the results to the Audit, Finance and Legislative Committee.

City of
Gainesville

Inter-Office Communication

November 14, 2013

TO: Russ Blackburn, City Manager

FROM: Brent Godshalk, City Auditor

SUBJECT: Review of Payroll System

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Based on the results of our review, we believe there is general compliance with applicable City payroll, personnel and timekeeping practices to provide reasonable assurance that payroll transactions are accurate, authorized, approved and monitored. However, we identified several areas where opportunities exist for strengthening controls over the payroll system. The attached report provides recommendations related to improving the coordination and efficiency of payroll processing, optimizing IT technologies and achieving cost savings, modifying payroll reports, improving procedures related to new hires and rehired retirees, modifying payroll and timekeeping practices to reduce errors and improve the timeliness of wages paid, and improving collection procedures for terminated employee training costs.

Our recommendations for improvement have been reviewed with Finance Director Mark Benton and Interim Human Resources Director Cheryl McBride. I would like to acknowledge their professional courtesy and cooperation during our review. I would also like to thank the members of the Payroll Division for their professionalism and the assistance they provided during our audit.

Please review the attached written report, which documents our audit recommendations and provide a written response within 30 days. Our report, including the management responses, will then be submitted to the City Commission's Audit, Finance and Legislative Committee for review and approval. The next two meetings are scheduled for November 20, 2013 and January 29, 2014. Until that time, this draft report and your draft response are exempt from Florida's public records law.

Thank you to you and your staff for making this a productive process. Feel free to call me if you have any questions.

cc: Mark Benton, Finance Director
Cheryl McBride, Interim Human Resources Director

OBJECTIVE, SCOPE AND METHODOLOGY

In accordance with our Annual Audit Plan, the City Auditor's Office completed a Review of the Payroll System. The primary objective of this audit was to evaluate the system of management control over the processing of City payroll transactions in order to determine whether internal control practices are effective for properly recording, maintaining and managing payroll transactions and for ensuring that payroll transactions are accurate, authorized, approved and adequately monitored. Our procedures included interviewing key staff involved in the payroll and timekeeping process; observing operations related to payroll processing and employee sign-in procedures; reviewing management controls; testing selected samples of transactions and supporting documentation; and performing other procedures deemed necessary. The scope of our review was generally for payroll expenses during fiscal years 2011 through 2013.

In order to test the primary categories of payroll transactions, samples included regular, overtime, retroactive and termination pay transactions. Testing was designed to determine whether employee and position information was accurate and to evaluate whether documents on file were complete, properly approved, accurate and monitored. We also evaluated internal controls to ensure that:

- employees receiving salary payments are valid and authorized,
- required data in the payroll system is complete and accurate, and
- employee payments and deductions are properly calculated, authorized and timely processed.

As for all of our audits, 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. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Based on the results of our review, we believe there is general compliance with applicable City payroll, personnel and timekeeping practices to provide reasonable assurance that payroll transactions are accurate, authorized, approved and monitored. However, we identified several areas where opportunities exist for strengthening controls over the payroll system. The attached report provides recommendations related to improving the coordination and efficiency of payroll processing, optimizing IT technologies and achieving cost savings, modifying payroll reports, improving procedures related to new hires and rehired retirees, modifying payroll and timekeeping practices to reduce errors and improve the timeliness of wages paid, and improving collection procedures for terminated employee training costs. Each of our recommendations has been discussed with management. These recommendations, as well as management's written response, can be found in the following sections of this report.

BACKGROUND INFORMATION

Employee Compensation

Employee compensation payments are for services rendered during a specific period of time in accordance with relevant terms and conditions of employment and applicable rates of pay determined by the City Commission through collective bargaining agreements or approved in pay plans for the group and level of the employee's classification. Additionally, employees may earn retroactive pay, working above grade increments or premiums for special assignments. Along with general practice and protocols, employee compensation is comprised of many discrete components, including but not limited to the following:

- Base Salary
- Holidays
- Incentive and Premium Pay
- Overtime
- Sick and Vacation Time
- Automobile Allowances
- Bonuses and Employee Recognition
- Administrative Leave

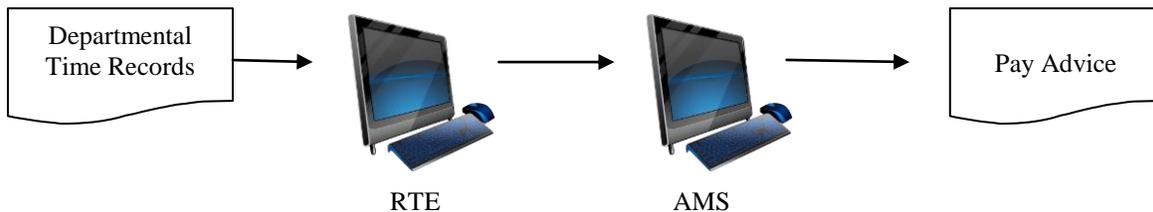
Payroll expenditures are a major component of the City’s annual operating budget. The City’s workforce is comprised of more than 2,200 employees, including regular and temporary employees. Gross payroll expenses, including overtime and benefits, for the last four fiscal years are as follows:

Fiscal Year	Gross Payroll Expense
2010	\$117.4 million
2011	\$117.9 million
2012	\$120.8 million
2013	\$121.7 million

Payroll Accounting Systems

The payroll accounting system is generally comprised of the following two software programs:

- Remote Time Entry (RTE) – An in-house system used for compiling hours worked and leave taken. Time entry data is generally entered by departmental timekeepers and approved by a manager.
- AMS Advantage® (AMS) – An externally developed application which interfaces with RTE. Information from RTE is transferred to the AMS system for payroll processing. AMS performs actual pay calculations, generates pay checks/advices and serves as the primary employee database.



Pay Administration Process and Structure

The City has documented a clear and effective payroll administration process that is up-to-date and widely communicated. The payroll administration process is designed to ensure that pay operations are conducted in a timely and orderly manner and ensure the accuracy of salary expenditures. Payroll processes, policies and directives are located on the City’s intranet with links to various information, forms and templates. The pay administration organizational structure is intended to ensure that roles and responsibilities are clearly defined and understood. The audit determined that pay administration processes and activities are generally well documented, understood and applied consistently.

The following summarizes the departmental structure in the pay administration process:

- 1) Human Resources
 - Gathering all required information for new hires, i.e., applications, I-9 data, W-4, etc.
 - Setting up new employees in the payroll system, i.e., job classification, pay rates, etc.
 - Conducting new hire orientation
 - Maintaining personnel files
 - Calculating and processing merit and cost of living increases, as well as other pay changes
 - Making changes to compensation as authorized by the City Commission

2) Risk Management

- Administering medical, dental and related benefit programs for all eligible City employees, annuitants and their eligible dependents including:
 - Health Benefits
 - Voluntary Benefits (Dental, Vision, Group Life Insurance and Flexible Spending Accounts)
 - Retirement and Deferred Compensation Plans
- Gathering all required information for all benefit programs, i.e., applications, I-9 data, W-4, etc.
- Setting up new employees in the payroll system, i.e. family coverage, dependent information, etc.
- Conducting open enrollment and maintaining benefit files
- Calculating and handling benefit and deduction changes
- Making changes to benefits as authorized by the City Commission

3) Timekeeping

Timekeeping involves tracking, documenting and approving employment related hours for City employees. This covers salaried, hourly, seasonal and bargaining unit employees and includes work time, sick time, vacation time, holidays and all other employment related time. Timekeeping is primarily a decentralized function, as departmental timekeepers are responsible for collecting and retaining employee time records and supporting documentation.

Departments generally use some form of daily attendance sheets, or a combination of daily attendance sheets and time cards to collect employees' attendance data. Several locations such as Public Works have electronic time and attendance programs requiring employees to clock in electronically. RTS uses a biometric time clock system to verify employee identities, based on the unique size and shape of their hands. Time data from the timesheets or electronic time reports is entered into the RTE (remote time entry) system by the timekeepers and submitted to department managers for final review of accuracy and approval. The RTE data is finalized and transferred to the AMS system for payroll processing.

4) Payroll Processing

The payroll processing function is conducted by the Finance Department's Payroll Division. The Payroll Division consists of six employees, who are responsible for processing payroll, running reports, sorting remittances and checks, distributing remittances to the individual departments and mailing checks to individuals. Nearly all City employees receive their pay via direct deposit with just a few printed paychecks. Payroll is processed based on time entry from the departments, pay rates maintained by Human Resources and benefits maintained by Risk Management. Monthly journal entries and bank reconciliations related to payroll are completed by Accounting.

The Payroll Division is also responsible for:

- Auditing payroll batches
- Generating the payroll posting to the financial system
- Establishing and maintaining direct deposits information
- Establishing withholding for garnishments
- Maintaining Employee's Withholding Allowance Certificates (Form W-4)
- Meeting record retention requirements
- Paying payroll taxes
- Filing payroll tax returns
- Issuing annual Wage and Tax Statements (FORM W-2)

Efficiency Improvements and Cost Savings Through Implementation of Employee Self Service

During Fiscal Year 2012, management implemented Employee Self-Service (ESS), a web-based resource where employees can view and update personal information related to their payroll, benefits and leave. We commend management for using innovative technologies such as ESS to support Payroll Division operations, enhance service delivery and empower employees with greater access to personal information. Implementation of ESS saves money and reduces environmental impacts through elimination of the following:

- Staff time and costs associated with printing direct deposit pay advice forms
- Staff time to perform repetitive tasks such as stuffing envelopes with pay advices and reports for distribution to the various departments
- Delivery of paper pay advices through City's internal mailroom
- Staff time in physically distributing advices to employees
- Reissuing checks due to processing errors
- Reproduction costs for lost or stolen pay stubs
- Costs associated with final payments for terminated employees

According to the National Automated Clearing House Association (NACHA), the average cost to print, process and mail one pay stub for one employee is \$1.90. The City issues about 2,200 paychecks per pay period. Estimated annual savings at the suggested \$1.90 rate is almost \$110,000.

ISSUE #1

Modifying Payroll and Timekeeping Practices To Reduce Errors and Improve the Timeliness of Wages Paid

Discussion

Throughout the City, payroll is generally a manual process. Although some departments have automated time card systems, most data entry is done manually by designated timekeepers into the Remote Time Entry (RTE) system which is then uploaded to the AMS payroll system. Although controls over timekeeping system are generally adequate, we noted several areas where internal controls can be strengthened city-wide and in GPD.

General Improvements

1) Source Documents

Source documents such as W-4's were not always available in the employee file maintained in Payroll. Supporting documentation is evidence providing identification and justifying the eligibility of a benefit or deduction. In order to improve and ensure accuracy, supporting documents and records must be easily accessible and filed in a way that facilitates examination. The lack of supporting documentation may lead to falsification or fabrication of documents.

2) Records Retention and Electronic Storage

Site visits to conduct timekeeper reviews indicated some weaknesses in departments consistently handling record retention and storage. Timesheets and employee files are not regularly purged and destroyed. We also believe that consideration is needed in converting paper files to electronic documents to improve file retrieval and achieve potential cost savings.

Records retention, file storage and electronic conversion vary from department to department. Although Human Resources, Finance and Risk share primary responsibilities for maintaining control of various employment and payroll records, operating departments retain time and attendance records and other supporting records critical to maintaining complete payroll records. Time and attendance records and other supporting documents include:

- Leave request forms for vacation, sick, etc.
- Time sheets or cards along with required documentation (medical slips or physician excuses, jury duty summons, military orders, etc.) submitted by an employee to document authorized absences
- Reports of leave hours used and accrued during a pay period
- Certification reports signed by the supervisor approving hours worked by employees
- Pay lists used to verify the payroll certification reports
- Correction forms rectifying errors in payroll processing

City of Gainesville Administrative Procedure G-5 provides guidance for compliance with Florida law that generally requires administrative records, such as personnel and payroll records, to be maintained for three (3) fiscal years. However, other lengths of time are required depending on the

nature of the documents. In addition, transitory messages, such as e-mails, must be retained until obsolete, superseded or until their administrative value is lost. Operating departments need assistance to ensure compliance with retention laws. We believe that Human Resources can best provide the overall guidance to the operating departments in managing payroll related records during site visits and timekeeper training sessions to ensure consistency throughout the City.

In addition to improving compliance with Florida retention laws, we believe the City will benefit from a widespread campaign to convert to electronic storage for payroll related records. Benefits of document imaging and electronic storage include:

- Storage space savings
- Reduced costs for filing equipment, folders and storage media
- Increased security and protection of vital records
- Web and Internet Access
- Faster access and retrieval of material
- Expanded search and browsing options
- Flexible indexing
- Full-text search
- Digital archiving
- Disaster recovery
- Automation of work processes
- Internal efficiency and workflow
- Electronic audit trails

We estimate a minimum of \$86,000 in potential savings can be achieved by converting to electronic storage for payroll related records. Our estimates are based on industry standards for size of paper, costs of filing cabinets, labor costs for handling and retrieving documents and space costs.

GPD Improvements

We noted significant difficulties in timekeeping practices at GPD. GPD is the largest department in the City with complex operational demands. GPD personnel are covered by four labor agreements and time and attendance entries are numerous and complicated. GPD has centralized its timekeeping practices and generally relies on one timekeeper to process 398 employees. However, utilizing one timekeeper creates an ongoing struggle of meeting payroll deadlines and resulted in a practice of continually postponing overtime payments into the next pay period. The lagging of payments is confusing, deters employees from tracking time and also hinders the audit process. We noted the following:

1) Undetected errors and contract misinterpretations

Errors and misinterpretation of policies, procedures or labor agreements resulted in errors in calculating leave, holiday and overtime payments most notably in GPD and within the CWA contract. We observed:

- a) Errors in counting hours of work for calculating holiday and overtime pay requiring significant corrections to employee pay
- b) Timesheets not reconciled to changes made after the pay period close
- c) Supporting documents for leave or court time not always timely submitted

Several GPD employees required time and attendance corrections resulting in retroactive payments as a result of these errors.

The goal of processing payroll is to ensure that employees receive accurate paychecks on the established pay date. Department supervisors and managers are responsible that payroll related tasks of recording and approving time are accurate and errors and contract misinterpretations minimized. Calculations for holiday and overtime pay can be complicated, and close monitoring is needed to ensure accuracy with the numerous laws, policies, procedures or labor agreements.

GPD is currently transitioning to automated software (Kronos/TeleStaff) for both scheduling and timekeeping. The selected automated time and attendance software will assist in controlling labor costs, consistently applying pay and union rules, minimizing compliance risk and improving efficiency, data control and workforce productivity. The transition to an automated payroll system offers benefits to both employees and supervisors. Employees can access schedules, timecards, attendance records and leave requests via computers, PDA's and phones. Routine tasks such as checking schedules, signing up to work special events or off-duty details and requesting time off will be more efficient. Additionally, supervisors and managers can access rosters, identify or contact employees meeting specific needs, run management reports and conduct emergency recall. In addition to operational efficiencies, the transition will also achieve cost savings. Vendor promotional materials indicate annual savings of up to \$210 per employee, or \$83,600 for GPD.

2) *Pay Time Lag and Employee Complaints*

We noted numerous time lags in GPD payroll payments. In addition, employee complaints concerning this practice were not effectively addressed by management.

The pay time lag is the interval between the deadline of recording hours worked and payment thereof. City payroll is processed bi-weekly with pay periods ending on Sunday and paychecks issued the following Thursday. Timekeeping entries must be accurate and include all hours worked up to the final Sunday. GPD's practice is to close payroll entries by Friday which requires time and attendance documents be turned in at least three (3) days prior to the employee completing the work week. However, actual work hours may change during Friday, Saturday and Sunday, and the task of reconciling time turned in to time actually worked becomes difficult and confusing. Work schedule variances for those three days are not completely accounted for until the next pay cycle, thus creating a perpetual time lag in payments. The time lag affects the accuracy of payroll, including holiday and overtime calculations which are governed by four labor agreements (FOP, PBA, CWA and CWA Supervisors). The continual practice of lagging a pay period confuses employees and makes it difficult to track hours worked and ensure proper payment occurs.

FLSA generally requires that overtime pay earned in a particular workweek be paid on the regular payday for the period in which the workweek ends. If the correct amount of overtime pay cannot be determined until sometime after the regular pay period, the employer must pay the overtime compensation as soon after the regular pay period as practicable. However, payment may not be delayed for a period longer than is reasonably necessary to compute and arrange for payment and in no event shall payment be delayed beyond the next pay day after such computation can be made. Although GPD generally complies with FLSA, we believe that:

- ✓ The payment process should be simplified and improved.
- ✓ Timesheets should be signed and authorized as close to payroll closing as possible.
- ✓ Timesheets should be reconciled for adjustments made after the pay periods.
- ✓ Procedures for turning in documentation should be enforced.

Management is responsible for ensuring payroll documents for unanticipated absences or overtime are accurate and timely for the success of the timekeeping process. Management must consider

alternative solutions to improve payroll posting and minimize the time lag. Consideration should include delaying the current closing date and converting to an automated system that can efficiently handle the complexities of GPD operations. The transition to an automated payroll system will assist in holding payroll open longer to ensure data input is as current as possible. The continual time lags in payments can create a potential FLSA issue if not addressed.

3) *Holiday Payments to School Crossing Guards*

We noted the City Commission approved practice of providing “holiday” pay for School Crossing Guards has not been formally documented in Human Resources policies and GPD procedures. School Crossing Guards are classified as “Temporary Employees” and sign hiring contracts acknowledging they will be paid “only for time worked as authorized by the City” and have “no rights to any benefits, including fringe benefits, under Personnel Policies of the City of Gainesville, any current Collective Bargaining Agreement or otherwise....”

Although temporary employees do not generally accrue holiday benefits, GPD has a long standing practice of providing “holiday” pay for School Crossing Guards at a flat rate of pay of 4 – 6 hours per day. The practice was initiated in the 1970’s to assist in recruiting and retaining staff but not formally approved by the City Commission until November 1994 subsequent to a prior audit. However, the final approval of the procedure was never formally documented in Human Resources or GPD. The holidays include non-school days during the school year, such as winter break, but exclude summer months. The annual cost of the 28 holidays for the approximate 26 guards employed is \$34,000. The positions are part-time and entail split shifts in both the morning and afternoon. School Crossing Guards provide a valuable service at a reduced rate for either a Police Service Technician or sworn personnel.

The City is required to maintain accurate records and formally documenting decisions is a good business practice and assists staff in complying with policies and procedures. The lack of adequately formalizing decisions creates uncertainty and increases the risk of errors. Management needs to formally document the pay guidelines for School Crossing Guards in the respective GPD and Human Resources procedure manuals, including any related personnel issues for absences, annual evaluations and wage increases.

Conclusion

Although we generally believe timekeeping practices work adequately throughout the City, there is a need to improve the payroll process for:

- 1) Supporting source documents to ensure they are readily accessible to provide evidence, justification or eligibility of benefits or deductions;
- 2) Providing guidance and oversight in developing consistent procedures for records retention to improve safety and security of payroll documents, reduce file storage and achieve cost savings;
- 3) Reducing payroll errors and contract misinterpretations in GPD;
- 4) Improving timeliness for payment of hours worked as time lags lead to employee complaints and potential FLSA issues; and
- 5) Formally documenting pay guidelines for School Crossing Guards in the respective GPD and Human Resources procedures manual, including any related personnel issues for absences, annual evaluations and wage increases.

Recommendation

We recommend that management:

- 1) Improve the filing and security of original source documents.
- 2) Reinforce record retention and storage guidelines during Human Resources site visits and training sessions. Policies and guidelines for converting paper records for electronic document storage should also be considered.
- 3) Modify GPD timekeeping practices to:
 - Ensure the transition to an automated payroll system is accomplished
 - Ensure a network of timekeepers is maintained and adequately trained
 - Ensure accuracy and compliance with contract rules for overtime
 - Improve the timeliness for payment of hours worked by adjusting the closing of payroll to reduce the lag in overtime payments and ensure payments are received as close to time earned as practicable
 - Reconcile timesheets for adjustments made after the pay periods
 - Enforce deadlines for turning in documentation
- 4) Complete recalculations of GPD payroll errors for CWA covered positions and ensure compliance with Administrative Procedure 2a.
- 5) Formally document pay guidelines for School Crossing Guards in the respective GPD and Human Resources procedure manuals, including any related personnel issues for absences, annual evaluations and wage increases.

Management's Response

Management concurs with the City Auditor's recommendations. Specifically:

- 1) In Payroll it is our intent to file not only W-4s, but all relevant supporting documentation in employee files. We will redouble our efforts to improve the filing and security of original source documents.
- 2) Management will reinforce record retention and storage guidelines. Records retention for payroll related documents is covered in the "Recordkeeping" section of "FLSA Timekeeper Training." This training is made available several times a year to all timekeepers as classroom training. In addition, the information is available in the "Timekeeper Training material" section of the intranet to which all employees have access.

The Classification and Compensation Division conducts periodic timekeeper reviews and provides guidance as necessary during and as follow-up to those reviews.

Consideration will be given to electronic document storage with CGI Advantage upgrades as it becomes financially feasible.

- 3) As GPD transitions to an automated payroll system, management will work to ensure that the GPD payroll process is maintained, timekeepers are adequately trained, and contract rules are complied with. Timely payment of wages earned is emphasized and timekeepers are told in training that overtime worked in a workweek/work period must be paid on the next regular payday for the period in which the workweek/work period ends, or as soon as practicable in a case where the overtime due cannot be determined immediately.

- 4) Recalculations of GPD payroll errors for CWA covered positions will be completed, and management will ensure compliance with Administrative Procedure 2a.
- 5) On November 28, 1994 the city Commission approved a flat daily rate for school crossing guards which would be the equivalent of 4 hours at a pay grade 4. The City commission also approved pay for school holidays and establishment of a School Crossing Guard Trust Fund to assist in funding the program.

Subsequent clarification by GPD and HR in February 1996 excluded Christmas and summer breaks from the paid holidays, provided for an adjustment to the weekly rate for absences and the intention to only pay a holiday if the employee worked the scheduled day before and the scheduled day after the holiday.

These pay guidelines will be incorporated in the Respective GPD and Human Resources procedures manuals.

ISSUE #2

Improving Procedures Related to New Hires and Rehired Retirees

Discussion

One objective of our review was to test the effectiveness of internal controls over new hires and ensure that all new hires are legitimate, properly authorized and accurately recorded in a timely manner. We believe that adequate controls exist in the payroll process to ensure that all new hires are legitimate, properly authorized and accurately recorded in a timely manner. Adequate separation of duties exists in the new hire process so that no one individual can control the process from start to finish. The risk of fraud and placing someone on the payroll is low since responsibilities are divided among the following four departments, with Human Resources taking the lead role:

- Hiring department
- Human Resources
- Risk Management
- Payroll

Except as noted below, the system of internal controls in effect over new hires appears reasonably adequate. The following areas need improvement in administrative controls:

1) Social Security Number (SSN) Errors

Data input errors of Social Security Numbers occurred during the process of entering new employee data. Although employees provided proper documentation and required forms, the input error went undetected because data input was not verified. The SSN is a unique and consistent identifier for individuals and an essential part of the employment process and reporting income to the Internal Revenue Service (IRS). The IRS can impose penalties for incorrectly reported information.

The Social Security Administration (SSA) offers an online Social Security Number Verification Service (SSNVS) that allows employers to verify the names and SSN's of employees against SSA records. The service is easy to use and can be conducted as a final cross-check after all data has been entered into the City's AMS HRM system.

Upon notification, the Human Resources Staffing Services Division immediately took corrective action and agreed to incorporate the online SSNVS step into their procedures when entering all new hire data. Staffing Services completed the application process for gaining access to SSNVS.

2) Federal Form I-9 Not Completed

We noted a new employee record that did not have the required US Form I-9, Employment Eligibility Verification. Effective since 1986, all U.S. employers must complete and retain a Form I-9 for each individual hired in the United States, including citizens and noncitizens. In completing the form, the employer must examine the employment eligibility and identity documents to determine whether the documents reasonably appear to be genuine and relate to the individual and record the document information on the Form I-9. Documents provided must be the original and include passports or drivers licenses and social security cards. The City is at risk for non-compliance if forms are not

available for inspection by authorized U.S. Government officials (e.g., Department of Homeland Security, Department of Labor and Department of Justice).

3) *Requisition Recordkeeping and Approval Issues on Rehired Retiree*

During our review, we observed a break in the numerical sequence of requisitions and noted a lack of a competitive process and the proper documentation regarding the override of a rehired retiree into the same position. The rehiring did not comply with City Manager Guideline No. 27, Rehiring City Retirees, for either the regular or the temporary position as it was not a competitive process and not properly authorized. The re-hiring of retirees must be 1) due to critical operational needs, and 2) done in a manner as to not give preferential consideration.

In addition, the Applicant Master Record for this direct hire was not updated to list the individual as the applicant hired into their previous position. The Applicant Master Record file contains the primary and current profile of applicant demographic information and attachments such as resumes that should collectively reflect an accurate and true record of employment history for all City positions filled. Incomplete updates of applicant records hinder the process of tracking applicants or searching positions applied for and eligible job history lists.

Management did not conduct a competitive process for this rehire, and the requisitions were not approved by the City Manager in accordance with City Manager Guideline No. 27. Non-compliance with policies and procedures puts the City at risk that the hiring process is compromised for proper authorization and documentation.

4) *Use of Injury Leave*

We noted that 48 hours of injury leave benefits granted for a medical condition was not in compliance with City policies and procedures. The 48 hours coincided with the employee's last days as an active employee and the DROP period ending. Injury leave is related to absences due to a compensable injury under Worker's Compensation and granted for an "on-the-job" injury beginning when an employee visits a physician. City Policy 14, Worker's Compensation, indicates that workers compensation is available to employees who are "disabled because of an injury arising out of, and in the course of performing their duties" and as governed by Chapter 440, Florida Statutes.

The employee's Worker's Compensation claim was denied as non-compensable. Worker's Compensation provides compensation to employees injured in the course of or arising out of their employment. Employees must use their accumulated leave for the period. Incorrect use of injury pay indicates the control activities over identifying, processing and reporting accident and injury events may not be functioning as intended and increases the City's risk for paying more in compensation than necessary.

5) *Post-Retirement Employment Process*

Consistent policies and procedures are needed to ensure compliance with Federal pension laws requiring a bona fide break in service before returning to employment, no re-employment plans initiated until after the break in service has elapsed and age requirements. All procedures and other informational materials should be current and reflect the latest pension laws.

The IRS issued a Private Letter Ruling (PLR) in 2010 regarding reemployment of retirees, specifying that employees must terminate their employment to receive retirement benefits. If both the employer and employee know at the time of "retirement" that the employee will, with reasonable certainty,

continue to perform services for the employer, a termination of employment has not occurred upon “retirement” and the employee has not legitimately retired. If employers allow employees to collect retirement benefits after not legitimately retiring then “[s]uch retirements would violate section 401 (a) of the Code and result in disqualification of the Plan under section 401(a) of the Code.”

During prior year hiring freezes, budget cuts and retirement incentives, management increasingly relied on re-hiring retirees. The General Manager and City Manager developed rehiring procedures in 2007 and 2009, respectively. In February 2012, the City Attorney advised management to develop procedures and practices to ensure compliance with the ruling and avoid disqualification of the City’s pension plans. In May 2012, Management implemented the use of a “*Notice To Retirees Regarding Re-Employment After Retirement*” form requiring employees to affirm in writing that no standing offers or agreements of reemployment with the City exist at the time of their retirement. However, we noted the following areas where procedures and practices are not complete and need further attention:

- City Manager and General Manager Guidelines in Human Resources are not consistent and neither was revised to address the 2010 IRS ruling.
- Retirement related materials and brochures in Risk Management were not revised to address the 2010 IRS ruling. For example, the Risk Department’s “Ready to Retire” brochure still indicates that an employee may be “reemployed with the City of Gainesville after retirement without affecting your retirement benefit and begin working towards a second regular retirement benefit.

Failure to adhere to existing state or federal rehiring provisions that require a bona fide break in service before returning to employment can result in significant financial liability to the City and the retiree and also jeopardize the tax-qualified status of the City’s retirement plans. The IRS can impose a significant tax penalty on income if a retiree, under the age of 59 ½, begins receiving retirement benefits and then is reemployed by the same employer. The IRS also imposes serious consequences to the Pension Plan if a bona fide separation does not take place.

Conclusion

There is a need to make improvements in controls over the new hires and rehired retirees including:

- 1) Recording of social security numbers, such as independent cross checking and verification to ensure compliance with wage and reporting laws.
- 2) Filing of Federal Form I-9, Employment Eligibility to ensure compliance with federal employment verification laws.
- 3) Recordkeeping and approval activities over the numerical sequencing of personnel requisition forms, competitive process and proper requisition approvals and consistently handling and updating Applicant Master Records.
- 4) Identifying, processing and reporting accident and injury events to ensure compliance with City policy and State laws for Worker’s Compensation.
- 5) Consistent policies and procedures over the post retirement employment process to ensure compliance with Federal pension laws requiring a bona fide break in service before returning to employment, no re-employment plans initiated until after the break in service has elapsed and age requirements. Also, all informational materials should be current and reflect the latest pension laws.

Recommendation

We recommend management improve existing controls and procedures over:

- 1) Data input for unique and critical data such as social security information by periodically verifying employee SSN's using the online SSA's Employee Verification Service;
- 2) Completing required state or federal employment eligibility forms on newly hired employees;
- 3) Ensuring that all personnel requisition forms are accounted for, properly authorized and in compliance with City policies, procedures and guidelines and that Applicant Master Records are complete and consistently handled to ensure the integrity of the database and provide an adequate audit trail of all applicants;
- 4) Injury leave procedures and timekeeper training to ensure time recorded is consistently handled; and
- 5) Updating post retirement employment policies and procedures and any and all other related documents and forms to ensure compliance with IRS rehiring guidelines and avoid disqualification of the City's pension plans.

Management's Response

- 1) and 2) Staffing services secured access to the SSNVS system in order to verify new hire social security numbers. This verification has been incorporated into the new hire procedures and became effective January 1, 2014, in order to ensure the accuracy of the information entered into our payroll system.
- 3) Staffing Services is aware of the unusual circumstances which gave rise to this recommendation and will be more diligent in tracking processes that include retirees, ensuring that they meet all criteria set forth in IRS regulations, HR policy, and Administrative Guidelines.
- 4) As part of regular timekeeping training we will continue to reinforce injury leave procedures to ensure time recorded is consistently handled
- 5) Post retirement employment policies. Procedures, related documents and forms will be updated as required to ensure compliance with IRS rehiring guidelines.

ISSUE #3

Improving the Coordination and Efficiency of Payroll Processing

Discussion

More than 2,200 employees are typically paid during each of the City's 26 bi-weekly pay periods. Although information technology is highly relied upon in data entry and processing, payroll remains a highly intensive manual process requiring extensive coordination between operating departments and the Payroll Division.

- The initial phase of payroll processing is handled by operating departments and includes time entries and approvals in RTE. Departmental entries must be accurate, reviewed and approved by departments prior to closing the data entry phase. Payroll staff "spot audit" RTE batches prior to integrating RTE with AMS and final processing payroll.

During our review, we observed numerous problems related to the time keeping and entry phase of payroll that could be reduced or eliminated. For example, we noted numerous batches after established data entry deadlines that were neither closed nor approved and several batches that were closed but not approved. When batches are not properly closed and approved by operating departments, Payroll staff is forced to contact timekeepers and remind them of existing payroll deadlines, holding up the payroll process and shortening the time for Payroll staff to review batches for errors. When errors are detected in time recording, Payroll staff is required to reopen batches and take corrective action.

- The next phase of payroll processing involves integrating RTE data into the AMS system and the disbursement of payroll. Once RTE is interfaced, the AMS system produces further reports requiring Payroll staff's attention. Payroll staff must accomplish these tasks in a very short amount of time to ensure that payroll disbursements are processed timely.

While observing a payroll process, we noted that Payroll was required to correct 10 records that AMS rejected. Rejected records were related to timekeeper errors in tracking and calculating items such as Administrative Leave in excess of 40 hours or excessive optional holiday pay. We also noted that even after these errors were corrected and payroll processing was initiated, Payroll staff continued to receive requests from a timekeeper to correct errors in posting employee overtime that required the voiding and reissuance of two checks.

Conclusion

Timekeepers and Payroll staff must effectively work in tandem to ensure the payroll process runs efficiently. We believe that improved efforts are needed by department timekeepers and approvers to reduce the number of batches requiring corrective actions by Payroll. Timekeepers and managers may not completely understand that the processing of payroll by Payroll staff is labor intensive, deadline driven and includes several processes beyond their role such as completing spot audits, posting transactions to accounting records and issuing electronic fund transfers to employees and vendors. It appears that some timekeepers rely on Payroll to make accommodations and bail them out even during deadline times. We believe that timekeeper training will assist in eliminating many errors encountered in the payroll processing system and improve efficiency.

Recommendation

We recommend additional training for timekeepers and approvers to reduce errors and improve efficiency in the payroll processing process.

Management's Response

Management concurs. Timekeeper training is an ongoing process and management will work to enhance and augment the training as necessary to improve the accuracy and efficiency of the payroll process.

ISSUE #4

Improving Collection Procedures for Terminated Employee Training Costs

Discussion

RTS hires driver trainees and incurs substantial expenses for trainees to become licensed Transit Operators and obtain a Commercial Driver License (CDL). Upon accepting the terms of employment, employees sign a "Transit Operator Trainee Contract" agreeing to repay the expenses if they voluntarily terminate City employment. The total contract amount is \$1,017. Repayment terms are on a sliding scale based on time employed and immediately due at the time of separation. The City reserves the right to withhold the funds from the trainee's final paycheck, returned retirement contributions and vacation time. Trainees are expected to pay the balance if the balance exceeds the funds withheld and applied.

- 6) We determined that two RTS Bus Driver Trainees terminated employment without repaying amounts owed on their training contracts for a total of \$1,148. Our testing indicated a breakdown in communications and timing issues that prevented the proper amounts withheld and applied. Although RTS intends to enforce the repayments, we determined that final amounts due were not properly calculated and communicated to the trainee for purposes of repayment or other departments for collection action.
- 7) Management did not formally record the amount due into the City records as a receivable or flag the trainee's file as ineligible for rehire until repayment received.

RTS, Payroll, Risk and the Human Resources departments need to better communicate and coordinate upon the terminations of bus driver trainees to ensure proper collection of training fees upon separation from City employment. Procedures should provide that amounts be formally recorded as a receivable and employee files flagged to indicate repayment expected before being rehired.

Conclusion

Final amounts due from City employees were not properly calculated and communicated to the trainee for purposes of repayment or other departments for future collection actions through billing or rehire.

Recommendation

We recommend that management:

- 1) Improve communications concerning the final results of employee final payment status and related documentation for recording and tracking amounts due;
- 2) Formally notify employees upon termination of final amounts due and consider offering a payment plan if needed; and
- 3) Flag employee records as ineligible for rehire until payments are received.

Management's Response

Management concurs. In 2011 a new e-mail distribution list (DG_Separation) was created for the express purpose of informing the Payroll, Human Resources, and Risk departments of the termination of an employee. The checklist timekeepers follow for processing a terminating employee was also updated to include sending an e-mail to DG_Separation so Payroll, HR and Risk could make needed adjustments of loan payments and benefit deductions before the terminating employee is paid their final paycheck. We will continue to enhance the communication process as required.

ISSUE #5

Review and Modification of Payroll Reports

Discussion

There are approximately 32 payroll related reports produced and stored for each payroll. During our review of a sample of selected reports, we noted a math discrepancy in the summary of deductions in the Payroll Register. We could not trace the deductions per the Payroll Register to the Run Control Deductions report. Although the reported grand total for the payroll was \$1,622,563, the numbers listed in the column actually totaled \$2,810,590. Through inquiries and analysis, we determined that the deductions column also includes certain employee “benefits”. However, the report appears programmed to ignore the “benefits” and sum only the “deductions”.

Basic internal controls require that math accuracy of reports be verifiable. We believe a solution to summarizing and totaling the Payroll Register is needed. The totaling of the report should be modified to show the totals of the deductions and benefits and provide a grand total, as provided below.

Deductions Total	\$ 1,622,563
Benefit Total	<u>1,188,027</u>
Grand Total	\$ <u>2,810,590</u>

IT Business Applications staff acknowledge that the payroll reports need some “major” revamping and that plans include revising the whole payroll reporting system. In the short-term, IT should consider suggested alternatives such as creating an additional report similar to the other “run control” reports for pay and deductions and titled “Run Control – Fringe Benefits.”

Conclusion

Payroll reports need to be modified to accurately reflect grand totals. Errors or omission of information can be significant to the users of the financial reports and result in payroll misstatement.

Recommendation

We recommend management determine a solution to modifying the payroll reports.

Management’s Response

Management concurs. InfoAdvantage, a reporting software for Advantage HR and Advantage Finance, has been purchased and installed and is currently undergoing testing. Utilizing this new reporting software will help eliminate reporting errors that are experienced with current payroll reports.