

REPORT FOR  
**CITY OF STOCKTON**  
INTERNAL CONTROLS TESTING: PAYROLL AND TIMEKEEPING

June 13, 2017

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# I. OVERVIEW

## A. BACKGROUND

Moss Adams, as the contracted internal auditor for the City of Stockton (the City), tested the internal controls over payroll processing and timekeeping. The review took place between May 2016 and May 2017 and focused on testing the operating effectiveness of key controls over the City's payroll processing and timekeeping for selected active, newly hired, and terminated employees.

The testing of internal controls for operating effectiveness was completed under the consultancy standards of the American Institute of Certified Public Accountants (AICPA). As such, this work was not an audit of internal controls that resulted in a formal opinion or other form of assurance. The specific methods used for testing controls over payroll and timekeeping are presented in the *Scope and Methodology* section.

## B. SCOPE AND METHODOLOGY

The scope of our review was the City's current payroll and timekeeping processes and practices. For our testing, we selected payroll records, newly hired employees, and terminated employees for the period of September 1, 2015 to February 28, 2016.

To test the operating effectiveness of internal controls over payroll processing and timekeeping in the City of Stockton, we performed a number of activities:

- Interviewed key personnel:
  - Accounting Manager
  - Payroll Supervisor
  - Supervising Accountant
  - Human Resources Program Manager III
  - Human Resources Program Assistant
- Gathered and reviewed relevant documentation:
  - City of Stockton Administrative Directives, Policies and Procedures relating to payroll, timekeeping, new and terminated employees
  - Flowcharts documenting payroll process and key controls
  - General Ledger and Payroll Journal for September 1, 2015 to February 28, 2016
  - Check registers for September 1, 2015 to February 28, 2016
  - Relevant recent payroll audit findings from previous internal audit reports
- Performed tests of internal controls relating to payroll processing and timekeeping that included the following elements:

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- Time reporting was appropriately reviewed and approved.
- Overtime was appropriately authorized, approved, and in compliance with relevant policies and procedures.
- Proper authorization and approval was sought for all new hires.
- Pay rates were appropriately approved and authorized.
- Entry of pay rates and rate changes were reviewed and entered accurately.
- Adequate documentation was retained in personnel files (i.e. personnel requisition, personnel action form, payroll deduction, and, if applicable, salary adjustment authorization).
- Employees did not continue to receive paychecks following termination.
- Payroll check registers were appropriately reviewed and approved.
- Changes in employment information were reported and entered in a timely manner.
- Payroll registers were reconciled to the general ledger accurately, timely, and with appropriate review.

### C. SUMMARY

While the City has made some progress in designing and implementing internal controls related to payroll processing and timekeeping since the internal control review report issued in April 2014, the City still has some gaps in its internal control environment regarding these processes. Many of these gaps relate to the City's dated payroll system, which necessitates the use of manual controls.

The results of our testing also reveal opportunities for the City of Stockton and its departments to further improve their payroll processing and timekeeping practices. In particular, we observed weaknesses in the following areas:

- Compliance with existing policies and procedures, particularly related to manual key controls
- Documentation of secondary review to ensure data accuracy on all payroll system changes
- Adequate recordkeeping to support timekeeping

The overall conclusion of this review is that the City should continue its work to design and implement a strong internal control environment as well as continue ongoing monitoring to assess and ensure the effectiveness of these controls. Such work should be considered a priority and completed in phases over the next 12 months as City resources are made available. Moss Adams would like to thank the staff of the City of Stockton for their cooperation and assistance during our review.

## II. SCOPE AND METHODOLOGY

### A. PAYROLL PROCESSING

We randomly selected payroll records for 25 active employees during the payroll periods between September 1, 2015 and February 28, 2016. Additionally, we selected 10 employees who were hired during this period.

To assess operating effectiveness of key controls in payroll processing and timekeeping, we performed the following tests:

- Compared hours or days worked per the payroll register to employee timecards, timesheets, or other records.
  - Verified timecards or timesheets were correctly totaled.
  - Verified that timecards or timesheets were appropriately approved.
  - If applicable, confirmed unapproved timecards were detected by Payroll staff, investigated, and tracked in a log.
- Verified that the payroll summary sheet was updated on a pay period basis for any changes that occurred during the period.
- Verified time reported (hours, days, time type such as leave) matched between payroll register and timecards.
- Examined overtime reporting and usage.
  - Verified overtime hours and rates for proper approval.
  - Determined that reasons for required overtime were adequate and complied with policies (City-wide and departmental).
- Compared pay rate, job classification, and grade ranges between personnel files (CS-23) and payroll register information.
  - Verified approval of original pay rate (Original Personnel Action Form with Pay Rate, Job Classification, and Grade Ranges [OT Eligibility]).
  - Verified approval of most recent rate change forms (Personnel Action Form).
  - Verified that pay changes were reviewed and approved upon data entry (Note: Secondary approval was not required until 2014.)
- Examined manual checks for indications of tampering or fraud.
  - Examined canceled payroll checks for propriety as to payee, date, amount, signature, and endorsement.
  - Compared endorsement to employee signature on appropriate documents maintained in personnel files.



## B. PERSONNEL RECORDS

We randomly selected personnel records for 10 employees who were hired between September 1, 2015 and February 28, 2016 as well as 10 employees who terminated employment during this period.

To assess operating effectiveness of key controls in the maintenance of personnel records, we performed the following tests:

- New Hires
  - Complete Personnel Requisition with Appropriate Approval
  - Complete Personnel Action Form (PAF) or Form CS-23 with Appropriate Approval
  - Authorization for payroll deduction
  - Salary adjustment authorization (i.e., Special Pay) (CS-23)
  - Evidence of primary and secondary review and approval upon data entry

## C. TERMINATIONS

We randomly selected personnel records for 10 employees who terminated employment between September 1, 2015 and February 28, 2016.

To assess operating effectiveness of key controls around the termination of employees, we performed the following tests:

- Verified the employee file included a detailed explanation for termination.
- Reviewed CS-23 (PAF) and CS-144 (Change in Personnel Record).
  - Verified review and proper approval of PAF.
  - Verified secondary review and approval of data entry of PAF for accuracy.
  - Assessed timeliness of data entry.
- Verified the employee file contained a signed Property Release Form.
- Reviewed documentation showing calculation of final severance pay noting adequate approval and support for vacation and other included accruals.
- Verified evidence of final check issuance.
- Reviewed the payroll register for periods subsequent to the individuals' termination and ensured that no additional payments were made. (If applicable, obtain explanations for any instances where payroll payments were made subsequent to termination date.)

## D. OTHER CONTROLS

We performed tests to evaluate the following additional controls relevant to payroll. These controls were tested due to the highly manual nature of the controls in place.



- Determined if payroll check registers were reviewed and approved.
- Determined if payroll registers were reconciled to the general ledger accurately, timely, and with appropriate review.
- Determined whether the Payroll Division reviewed the Payroll Summary Sheet notes it received from departments and processed changes completely, accurately, and timely.
- Determined whether departments reported employment changes (e.g., new hires, terminations) completely, accurately, and timely.
- Determined whether all departments that utilized overtime (departments with non-exempt staff) had a written overtime procedure in accordance with the City's Administrative Directive FIN-04.
- Determined whether Citywide and Payroll Division policies and procedures are adequate and up-to-date.



### III. RESULTS

Test	Results	Exceptions
Time Reporting Approval	9 exceptions of 25 active employees tested for selected pay period	See Finding 1 for details See Finding 2 for details See Finding 3 for details
Time Reporting Accuracy	0 exceptions of 23 active employees tested for selected pay period <sup>1</sup>	Not applicable
Timecards Accuracy	1 exception of 23 active employees tested for selected pay period	See Finding 4 for details See Finding 13 for details
Overtime Approval	0 exceptions of 10 active employees tested with overtime for selected pay period	Not applicable
Overtime Compliance	0 exceptions of 10 active employees tested with overtime for selected pay period	Not applicable
Payroll Summary Sheet Updates	1 exception of 23 active employees tested for selected pay period	See Finding 5 for details
Data Entry Documentation	8 exceptions of 31 active employees and new hires tested	See Finding 6 for details
Pay Rate Accuracy	0 exceptions of 35 active employees and new hires tested	Not applicable
Data Entry Review for Accuracy	3 exceptions of 21 active employees tested <sup>2</sup> 1 exception of 10 new hires tested 10 exceptions of 10 terminated employees tested	See Finding 6 for details
Manual Checks	0 exceptions of 4 active employees and new hires with manual checks tested for selected pay period	Not applicable
Personnel Requisition Approval	0 exceptions of 10 new hires tested	Not applicable

<sup>1</sup> Two of the timesheets we sampled could not be located and tested.

<sup>2</sup> Four of the files selected were for employees with personnel action forms that pre-dated the 2014 requirement to document data entry and secondary review.



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Test	Results	Exceptions
Personnel Action Approval	0 exceptions of 10 new hires tested	Not applicable
File Completeness* <sup>3</sup>	0 exceptions of 10 new hires tested	Not applicable
Explanation for Termination	0 exceptions of 10 terminated employees tested	Not applicable
Property Release Form	1 exception of 10 terminated employees tested	See Finding 9 for details
Personnel Action Approval	0 exceptions of 10 terminated employees tested	Not applicable
Data Entry Timeliness	10 exceptions of 10 terminated employees tested	See Finding 6 and Finding 7 for details
Final Check Issuance and Calculation Supported	0 exceptions of 10 terminated employees tested	Not applicable
Discontinue Paychecks	1 exception of 10 terminated employees tested	See Finding 8 for details
Payroll Register Approval	6 exceptions of the 12 payroll periods tested	See Finding 10 details
Payroll Register Reconciled Timely, Accurately, and Reviewed	0 exceptions of the 12 payroll periods tested	Not applicable
Departments Report Employment Changes	Exception noted	See Finding 12 for details
Up-to-date Department Overtime Policies	Exception noted	See Finding 11 for details
Up-to-date City-wide Payroll Policies and Procedures	Exception noted	See Finding 14 for details
Adequate Payroll Division Policies and Procedures	Exception noted	See Finding 15 for details

<sup>3</sup> To test the completeness of new hires' records, we evaluated whether the following forms were present: personnel requisition, personnel action form, payroll deduction, and, if applicable, salary adjustment authorization.

## IV. FINDINGS AND RECOMMENDATIONS

### 1. Finding: Not all approved timecards were retained or could be located.

Timecard processing varies by departments and is decentralized. Each pay period, manual timecards are sent to the Payroll Division. During our testing of timecards, we found that the timecards were not stored or organized in a systematic manner. We identified some packets submitted by the departments were stored haphazardly in boxes. Thus, locating documentation for our selected samples was time-consuming and difficult. Furthermore, there were two employees selected for testing for which an approved timecard could not be located. In many cases, the departments sent the original timecards to the Payroll Division without retaining a copy. According to City staff, it is currently at the discretion of the departments to determine whether or not to retain copies of timecards. For example, some departments retain copies of timecards, particularly if they are required to provide them for grant documentation. However, according to the City's Administrative Directive, "City Departments are responsible for retaining payroll records that provide supplemental information to the timesheets that are relevant to the substantiation of the timesheets (e.g., time-in, time-out, standby status, etc., where applicable) for three years, or longer for compliance with outside requirements (e.g., grants)."

Once received by the Payroll Division, electronic scanning of all timecards was not performed in a timely manner. According to the City, due to staffing shortages, the timecards for the end of fiscal year 2015 were in boxes pending scanning when we arrived. City staff stated that the Administrative Services Division does not have enough clerical staff to accomplish all tasks, so part-time and temporary employees are hired to do scanning and other duties. However, these part-time and temporary employees are limited to 1,000 hours per fiscal year and, as a result, Administrative Services Division lost many of these staff before the end of the fiscal year as they reached their maximum hours. City staff stated that once the new fiscal year began and Administrative Services Division was able to bring back part-time staff, the scanning was caught up and the filing completed. Without scanning all timecards into the electronic system in a timely manner, the Department is at risk of losing confidential information and information that is vital for payroll processing.

**Recommendation: The City should establish policies and procedures for retaining adequate time records and scanning timecards electronically in a timely manner.**

The Payroll Division should create a policy and procedure that provides staff guidance for the frequency that the timecards should be scanned electronically once received from the departments. This policy should include a schedule for dates that timecards are received, along with the deadline of when they should be scanned. This will improve efficiency and completeness in record keeping and assist in validating control compliance and minimizing risks. Moreover, scanning each payroll timecard and maintaining an organized electronic copy of all received timecards would be the most efficient process, especially for retrieval purposes.



The City should consider the additional office support staff required to ensure timely and complete electronic scanning is completed throughout each fiscal year.

In addition, departments should be reminded of the requirement to retain supporting documentation that is relevant to the substantiation of timesheets.

**2. Finding: Departments do not consistently review and appropriately approve all timecards.**

According to the City, departments are responsible to review the timesheets and obtain supervisor signatures before sending them to Payroll to ensure they are consistent with the electronic submission and that electronic timesheets were submitted. However, during our testing, we observed seven instances in which timecards were not approved appropriately.

- In particular, we found five instances in which timesheets were signed prior to the pay period end date. Some approvals were made as much as a week before the pay period end date. In each of these cases the timing of the timecard approval was problematic because employees were approved for pay for days they had not yet worked. Lack of consistent, appropriately timed timecard approval can lead to inaccurate hours of pay and/or inaccurate reporting of paid time off and other accruals. Without a robust system to reconcile all time reported with time worked after the fact, the accuracy of these timesheets cannot be ensured.
- We found one instance in which the timecard was signed by management after the paycheck was issued. In this instance, the supervisor approved the timecard five days after the paycheck for that pay period had been issued. In addition, the approval occurred 12 days after the pay period end date. When there are delays in obtaining signatures after the City payroll process occurs, the integrity of the City's payroll accuracy is compromised and faces a greater risk of errors.
- We found one instance in which a timecard was not signed by the employee. This blank timecard was approved with no exceptions by the supervisor and never signed by the employee. According to the City staff, in the event an employee is not able to sign a timecard due to illness or scheduled leave, the employee's supervisor will verify the time and overtime worked, then enter "UTS" (unable to sign) on the employee signature line, following with his/her signature below. However, if the employee forgot to record paid time off because the timecard was not filled out, then accruals would be inaccurately reported going forward. The absence of adequate controls around employee review of timecards could negatively impact the payroll process and prevent errors from being detected.

These challenges largely relate to the City's payroll system and timing. With a more robust and modern timekeeping system, these discrepancies would be minimized due to more streamlined time-reporting including electronic submissions with automated work flow. Currently the City is



exploring converting to a single online/electronic timekeeping system, which would include a date/time stamp and audit trail.

**Recommendation: The City should strengthen procedures to monitor approval of timecards and increase training about timecard approval.**

The Payroll Division should work with departments to provide additional training and increase awareness about internal controls relating to timecards. The City should update its policies and procedures regarding timecard approvals, including review of accumulating and reporting hours accurately. The procedures should have the supervisors in each department ensure that the timecard is signed by the employee prior to obtaining the approval from the supervisor. By receiving the employee's approval and submission of a timecard, the supervisor can gain confidence or verify the actual accuracy of a timecard based on the employee's input. All instances in which timecards cannot be signed by an employee due to absence, supervisors should provide these timecards for review and approval or correction after the fact. In addition, a log should be kept for errors that are noted.

In the long term, the City should continue to pursue automated staffing and payroll software solutions to improve the controls related to the City's payroll function. Employees are expected to accurately record their time worked and be paid for the time actually worked. To ensure an employee is not inaccurately or fraudulently being paid for work not performed, in a new system, the approval of timecards should be performed after the pay period has ended and all work for that period has been performed. In particular, the departments should explore options for adding a date requirement to all timecards submitted. This will provide best practices to submit timecards in a timely manner for employees that have extended scheduled days off.

**3. Finding: The Payroll Division does not verify that timecards were appropriately approved.**

Based on our testing, we observed that Payroll does not detect, investigate, or track unapproved timecards. According to City staff, timesheet reporting is a decentralized function and departments are responsible for the accuracy and completeness of timecards including authorizations. While most timecards are approved electronically, if manual timesheets are used then it is the departments responsibility to ensure proper approvals are followed before entering data into the payroll system.

When asked about the timecard approval issues we identified, Payroll staff stated that it is not their responsibility to check timecard approvals so they do not track or investigate timecards with missing signatures. Similarly, they stated that it is not their responsibility to confirm or detect other types of errors such as determining the appropriateness of the dates of approval. They stated that there are limited resources in the Payroll Division and staff focus on verifying accuracy in the payroll system and making corrections when errors are detected and/or identified by departments.



We first observed this issue in our Internal Controls Review report issued in 2014.

**Recommendation: Implement improvements to monitor approval of timecards.**

In the long term, the City should pursue automated staffing and payroll software solutions, which can mitigate the areas currently lacking in the departments' payroll data entry, approval, and review. This type of system would improve the Payroll Division's ability to automatically monitor that all appropriate approvals have occurred.

Until such a system is implemented, the City should implement random audits of paper timesheets for completeness and accuracy. To avoid fraudulent or unauthorized paychecks being issued, checks should not be issued and printed until an approval has been received. Furthermore, a backup approver should be appointed for each supervisor in case of an absence. The City should perform spot audits on timesheets to ensure the appropriate signature is obtained in a timely manner. A log should be kept for errors that are noted, and the Payroll Division should follow up with departments to increase training and internal controls. Additionally, the City should continue to ensure that the Payroll Division is staffed at full capacity to ensure that internal control improvements are implemented.

**4. Finding: Not all time reported matched the payroll register.**

We compared the timecards to the payroll register and found one instance in which these records did not match. We found that the time paid on the payroll register did not match the amount listed on the approved timecard. Given the current limitations in the City's various timekeeping systems, the City does not have a robust process for ensuring that employees cannot get paid for time that is not recorded on their approved timecard.

According to the City, timecards are exception-based and filled out with time scheduled rather than time worked. This happens roughly one week before the pay period ends. Therefore, signed and approved timecards contain estimates for roughly half of the time reported with time being approved roughly a week before it is worked. Overtime slips or other exceptions are turned in as they happen. The City's Payroll unit does not have adequate staffing to compare hard copy records to the electronic payroll records. Without a more robust process to ensure that this comparison is consistently occurs, the risk of inaccurate pay increases.

**Recommendation: Explore the implementation of a single, robust timekeeping system.**

The City should continue its efforts to implement an upgraded timekeeping system to gain efficiencies and increased controls. Until a new system is implemented, the City should consider implementing a periodic spot check program to compare payroll registers to timecards.



**5. Finding: Departments are not consistently updating employment changes completely, accurately, and timely after the review of the Payroll Summary Sheet.**

Payroll Summary Sheets are supposed to be used by the departments to notify the Payroll Division of any status changes to an employee such as termination, leave, or new hires. During our observation, we tested 23 sampled timecards for active employees and compared them to the respective Payroll Summary Sheets. Of the Payroll Summary Sheets observed and turned into the Payroll Division, we found one sheet that was not up-to-date. The department did not make a note on the Payroll Summary Sheet regarding a terminated employee and did not remove the terminated employee from the list. The same Payroll Summary Sheet did not note that one of the timesheets was missing appropriate approval. Without proper notations on the Payroll Summary Sheets, the Payroll Division may not be aware of changes of employment in a timely manner.

Additionally, there was no indication that the Payroll Division detected that this employee had been terminated and should not have been on the summary sheet or that the missing timesheet approval was noticed. This has been an ongoing issue and noted in a prior audit finding.

**Recommendation: The Payroll Summary Sheet should be consistently updated by the departments to ensure that all necessary timecards are turned in and changes are made to the payroll system in a timely manner.**

Staff that are responsible for the review of the Payroll Summary Sheet should be trained to make notations of changes to the Payroll Summary Sheets. For example, if an employee was terminated, staff should be required to notate this information on the Payroll Summary Sheet. In addition, once the notation is made, staff should then scan and send this form electronically to the Payroll Division. This will ensure that both departments have reviewed the change and have backup documentation to support the change.

**6. Finding: Key controls related to the changes in the payroll system were not consistently performed.**

As part of our Payroll Processing, New Hires, and Terminations testing, we tested the completeness, data entry record, and secondary data entry review for PAFs (CS-23s). These forms provide documentation of authorization for personnel action including hiring, pay rates, and termination.

All changes in the payroll system should have corresponding paperwork. According to the City's policies, a PAF approving the requested action should be documented with the name and date of the person who entered the data. Additionally, starting in July 2014, a secondary reviewer should also note their name and date as they review data to ensure the accuracy of this change. We reviewed documentation of these changes as part of our testing for payroll processing, personnel files, and terminations. We observed a variety of weaknesses in these practices.



- As part of payroll processing testing, we reviewed recent PAFs. Of the 31 forms we tested, we observed eight instances in which the form had not been signed and dated by the person who entered this information into the system. While we understand that the payroll system electronically captures information about the individual and date that entries were made, this represents a departure from the established practices.
- Additionally, of these 31 forms we tested, we found four instances in which there was no signature or date documenting that a secondary review of this entry had been performed. Without documentation of review and approval upon data entry, we could not determine whether this review was performed or assess the timeliness of this review and, ultimately, this departure in process increases the risk for errors.
- For the 10 terminated employee files reviewed, we found that none had documented dates or initials for data entry. Besides deviating from policy, without any indication of when the data was entered, we could not assess the timeliness of data entry. Delays in entering data into the system regarding terminated employees could cause risks of financial loss. When we discussed our observations with City staff, we were informed that, according to the Human Resources process, the data entry of CS-23 forms does not need to be reviewed by a secondary person for terminated employees.

**Recommendation: Implement improvements to controls related to payroll changes.**

In the long-term, the City should implement a payroll system with stronger automated system controls that require the review and approval of an independent and senior employee. Until these improvements are implemented, the City must increase its efforts ensure the consistent performance of manual controls. The City should review its existing policies and consider developing additional procedures that more plainly state the requirement to document signatures and dates. Additionally, the City should develop its own spot audits to randomly check compliance with these procedures and enforce instances of non-compliance. This process will provide an additional audit trail for staff that record data into the system and establish accountability for the timeliness of data entry.

**7. Finding: Employee terminations are not accurately and timely updated in the payroll system.**

During our testing of terminated employees, we found one instance in which an employee was not removed from the system in a timely manner. In particular, we found an employee that was not terminated from the system until over a year after the last pay period of their employment. The Payroll Division explained that this employee was an annuitant. Part-time employees and annuitants can work periodically on an ongoing basis and therefore may have periods of inactivity. Without consistent monitoring of the active employee listing, the City is at risk of performing overpayments to terminated employees.





**Recommendation: Implement additional review procedures for part-time employees to ensure employees are still active.**

The City should implement a procedure for periodically checking part-time and annuitant employees to delete or deactivate them from the system after significant periods of inactivity. For example, procedures should be established to create and distribute lists of all part-time and annuitant employees to ensure timely removal from the system. Providing additional controls will increase the frequency that part-time and annuitant employees are removed or deactivated from the system.

**8. Finding: A paycheck was issued after an employee's termination date.**

During our testing of terminated employees, we found an instance in which an employee was paid for additional time after their termination date. The employee tested was terminated on the last day of the pay period and received a paycheck for the following pay period. The last paycheck was for 7.5 hours and there was no documentation to support the 7.5 hours. Upon inquiry, we were advised by staff that the termination date was entered erroneously into the system and a payment was made to an employee that incorrectly appeared terminated. While this instance ultimately was due to a data entry error, this error represents a weakness in the City's controls in which a terminated employee could receive a subsequent paycheck.

**Recommendation: Establish and implement best practices for the process of terminating employees.**

Given that it is not feasible for the City to provide terminated employees their last paychecks on their last day of employment, it is important to incorporate other controls to prevent inappropriate pay to terminated employees. For example, it is important to update an employee's employment status in a timely manner and ensure that termination dates are accurately entered. The City should perform a secondary review of termination date data entry for accuracy.

Additionally, system controls must be in place restricting terminated employees from recording time entry and receiving an additional paycheck after their termination date. If exceptions exist, a memorandum must be written, properly supported, and approved. Without such preventive procedures, employees may have access to fictitious time entry and paycheck issuance. If system controls are not possible, the City should develop and perform regular monitoring to detect these types of issues.

**9. Finding: Documentation of a signed Property Release Form was not obtained for all terminated employees that received City equipment.**

During our testing, we found that not all terminated employees had Property Release Forms in their personnel files. Of the ten files tested, we found four files that contained this form. Of the remaining six files, the Human Resource Department stated that they did not consider this form





necessary for the five of the files. Specifically we were advised that not all employees are issued City property, but that employees who are issued significant equipment must complete Property Release Forms. However, for one of the selected terminated employee's personnel files we reviewed, we could not locate a signed Property Release Form and Human Resources agreed that this form was relevant for this former employee. Upon inquiry about this omission in the file, we were advised that this employee did not leave the City's employment on good terms. Because of the circumstances, we were advised that a Property Release Form was probably overlooked. In order to safeguard all City property, ensuring the return of property upon employee termination is critical even when employees leave under unfavorable circumstances.

The City stated that individual departments are currently responsible for obtaining completed Property Release Forms and turning them in to the Human Resources Department. The Human Resources Department often times does not receive these forms in a timely manner.

**Recommendation: Improve monitoring controls to ensure the completion of the Property Release Forms upon employee termination.**

The City should implement a Termination Checklist to help ensure that all steps are completed prior to the exit of a terminated employee. The City should consider employing additional consequences if a terminated employee fails to comply with such procedures (i.e., final paycheck not delivered until complete compliance). The Human Resources Department should train departments on completing the Property Release Form and send out reminders to ensure the timely return of these forms, or the City should consider making the Human Resources Department responsible for these forms. Additionally, the City should review its policy to clarify what City property must be returned and requires a Property Release Form.

**10. Finding: The check registers were not consistently reviewed and approved prior to payment.**

When processing payroll checks, first the Payroll Supervisor reviews the checks and then the Accounting Manager reviews and signs the payroll register. Additionally, the City stated that the CFO or designee reviews check registers bi-weekly and verifies that the Accounting Manager signed off on processing payroll. During our fieldwork, we tested the payroll cover sheets for 12 pay periods and found several instances in which the checks registers were not approved by the appropriate individuals and were not approved prior to the pay date.

- We found one instance when the signature by the Accounting Manager occurred after the pay date.
- We found two instances in which the check register cover sheets lacked the CFO's or designee's signatures.
- We found the three instances in which a date was missing next to the CFO's or designee's signatures.



- We found six instances in which the cover sheets were signed by the Assistant CFO on the same date, which occurred after the pay period. In some instances, this signature was as much as five months after the end of some payroll periods.

According to the City, the second signature on the payroll register may be dated after payroll issuance due to an absence in the office. However, this second signature of the CFO or a designee is a key control and is not effective when not performed timely and on a consistent basis.

**Recommendation: The payroll register should be reviewed and signed off on a timely basis by the CFO or designee after the check register has been completed and prior to the paycheck issuance date.**

The City should revise its policy to clarify the requirement for reviewing and signing off on the payroll register. For example, the policy should instruct staff what to do in the absence of any individual responsible for signing and the due dates for the review each pay period. Additionally, the policy should require that staff date all signatures.

#### **11. Finding: Not all departments that utilize overtime have written overtime procedures.**

According to a City Administrative Directive, all departments that utilize overtime must have written overtime procedures. While policies regarding overtime are contained in the bargaining units' Memorandums of Understanding (MOUs), departments should also have procedures in place to provide employees additional instructions regarding the authorization and usage of overtime. However, departments were not able to satisfy our request for these procedures.

**Recommendation: Establish departmental overtime procedures.**

In order to ensure the appropriate usage of overtime, departments should draft procedures to guide their employees in requesting overtime and the supervisors who review these requests.

#### **12. Finding: Payroll Summary Sheets are not up-to-date.**

During our testing of the Payroll Summary Sheets, we identified an instance in which a terminated employee was not removed from the summary sheet. Moreover, the department did not make a note of this employment change to explain the absence of a timesheet for this employee. Without consistent notations on the Payroll Summary Sheets, terminated employees may be included on the list, which increases the risk of financial loss.

As reported in our Internal Controls Report in 2014, the Payroll Division is not fully reconciling information received from departments to ensure the City's record of employees is current and accurate. For example, there was no evidence that the Payroll Division noticed a missing timesheet or this recent termination. However, according to Payroll Division staff, this review is the responsibility of the departments rather than the Payroll Division.

**Recommendation: Strengthen controls related to Payroll Summary Sheets.**

The City's Payroll Division should train all department staff about making notations of employment changes on the Payroll Summary Sheets and incorporate these requirements in City policy. This training should provide information on monitoring procedures that are best practices to help ensure Payroll Summary Sheets are adjusted accurately. Additionally, the City should consider the roles and responsibilities of the Payroll Division in relation to the Payroll Summary Sheets.

**13. Finding: Challenges related to the Police Department's timekeeping system persist.**

The Police Department has the largest number of staff City-wide—the majority of which work on a shift schedule. To accommodate the 24/7 nature of its operations, the Police Department uses its own system for scheduling and timekeeping and has 2.5 FTEs dedicated to payroll processing across these two systems. However, as has been noted extensively in previous reports, there are challenges in coordinating information from the Police Department's system to the City's timekeeping system. Most notably, the Police Department completes City timecards with information based on time scheduled rather than time worked. This happens roughly one week before the pay period ends. Therefore, signed and approved timecards contain estimates for roughly half of the time reported with time being approved roughly a week before it is worked.

The controls in place to confirm the accuracy of the scheduled hours reported and the actual hours worked are entirely manual. Specifically, these controls depend on the Police Department unit supervisors to verify assigned staff time worked and overtime. After timecards are submitted for Payroll staff verification, if there is a change such as an employee calling in sick, the unit supervisor is required to notify the Police Department's payroll unit and the timesheet and entries in all systems are then updated to reflect the actual hours worked.

While we acknowledge that the Police Department payroll staff work diligently to submit employee payroll information that is as accurate as possible, the manual nature of this process creates significant risk for error or even fraud, waste, or abuse.

**Recommendation: Continue to explore a more robust, modern payroll system with a single timekeeping tool.**

The City should continue its efforts to obtain and implement a modern payroll system that can accommodate the needs of all departments including the Police Department or interface effectively with other systems.

**14. Finding: The City does not have comprehensive up-to-date payroll policies and procedures.**

The City's administrative directives and City-wide policies regarding payroll were last updated in 2010. Although the City has been provided with best practice guidance regarding payroll



policies, the Administrative Services Division and the Payroll Division have not updated these City-wide policies and procedures.

**Recommendation: Update the City's payroll policies and procedures.**

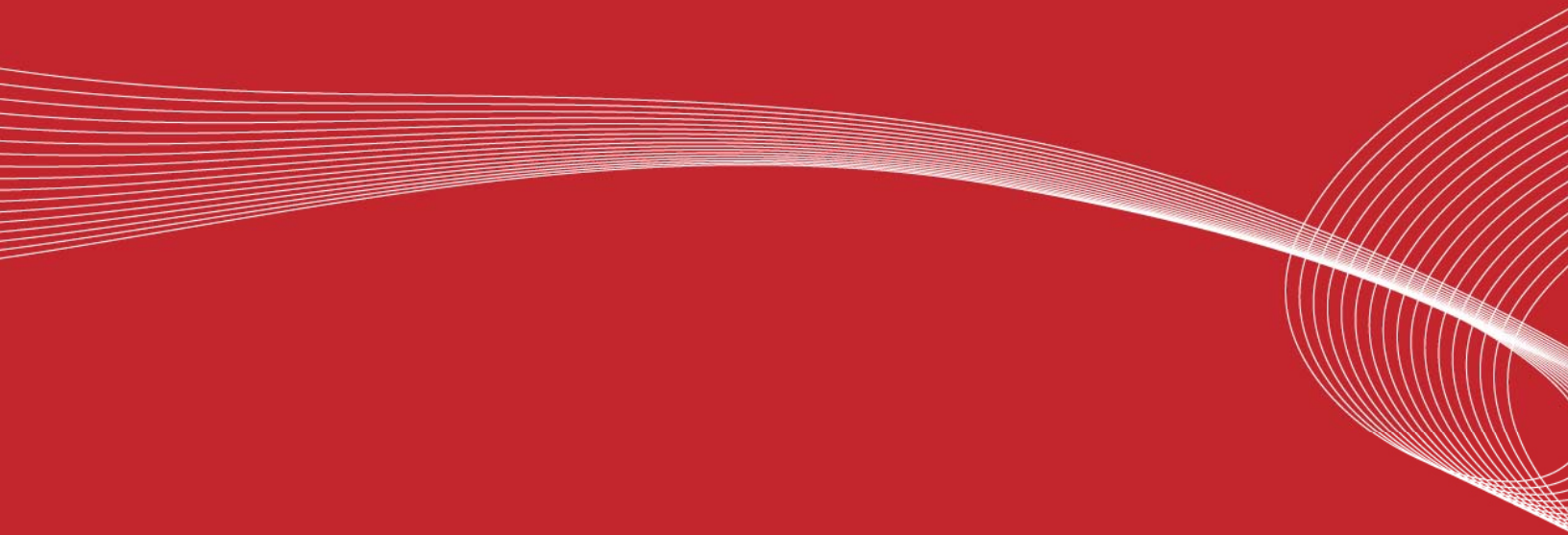
The Payroll Division should work with Administrative Services Division leadership to secure resources to ensure the successful completion of this documentation.

**15. Finding: The Payroll Division does not have its own internal policies and procedures documenting its own practices.**

The Payroll Division does not have written documentation of its own practices and processes. Because the City's payroll system relies on numerous manual controls, the consistent performance of these controls is a critical element of the City's control activities for payroll. This lack of written guidance increases the chances of inconsistencies and the likelihood of non-compliance. Moreover, any turnover in staff poses a risk in the loss of institutional knowledge. This issue has persisted since our Internal Controls Review issued in 2014.

**Recommendation: Develop and implement internal policies and procedures.**

The Payroll Division should work with Administrative Services Division leadership to secure resources to ensure the successful completion of this documentation.



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