Audit #14-08:

Payroll Operations
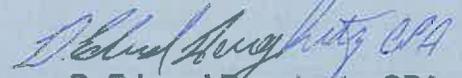
Detailed Audit Report

Office of the City Auditor and Clerk
Internal Audit

Prepared by:
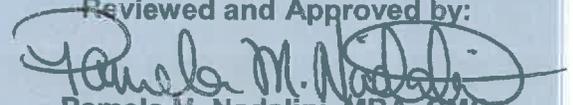
[signature]

Mark L. Sulloway
Senior Internal Auditor

[signature]

D. Edward Daugherty, CPA
Manager Internal Audit

Reviewed and Approved by:

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Pamela M. Nadalini, MBA, CMC
City Auditor and Clerk

Report Issued: January 14, 2015

You can obtain copies of this report by contacting us at:
Office of the City Auditor and Clerk
1565 1st Street
Sarasota, FL 34236
(941) 954-4135

Or download and view an electronic copy by visiting:
www.sarasotagov.com

Date: January 14, 2015

To: Mayor Willie Charles Shaw, Vice Mayor Susan Chapman, Commissioner Suzanne Atwell, Commissioner Eileen Normile, Commissioner Stan Zimmerman

From: Pamela M. Nadalini, MBA, CMC, City Auditor and Clerk

Subject: Audit #14-08: Payroll Operations

Attached for your information and review are copies of the above-mentioned detailed and executive summary audit reports.

If you have any questions, please do not hesitate to call me at (941) 954-4169.

Attachment(s):

Detailed Audit Report #14-08
Executive Summary Audit Report #14-08

Cc: Thomas Barwin, City Manager
Robert Fournier, City Attorney
Heather Essa, MPA, CIA, CGAP, CFE, Deputy City Auditor and Clerk
Ed Daugherty, CPA, Manager Internal Audit
Mark Sulloway, Senior Internal Auditor
File

OFFICE OF THE CITY AUDITOR AND CLERK
Internal Audit Division

Date: January 14, 2015

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Executive Summary Audit Report #14-08

Cc: Robert Fournier, City Attorney
        Marlon Brown, Deputy City Manager
        John Lege, Director of Finance
        Stacie Mason, Director Human Resources
        Timothy Litchet, Director Neighborhood and Development Services
        Douglas Jeffcoat, Director Public Works
        Mary Bensel, Executive Director Van Wezel Performing Arts Hall
        Anthony Becich, General Manager Van Wezel Performing Arts Hall
        Chief Bernadette DiPino, Sarasota Police Department
        Captain Corinne Stannish, Sarasota Police Department
        David Flatt, Manager Accounting Payroll Systems
        Heather Essa, MPA, CIA, CGAP, CFE, Deputy City Auditor and Clerk
        Ed Daugherty, CPA, Manager Internal Audit
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        File

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BACKGROUND AND INTRODUCTION

The City of Sarasota (City) employee salaries, wages and benefits for 2012-2013 (fiscal year) totaled $53,199,265 for 848 employees paid out over 26 bi-weekly pay periods. This amount accounts for 30.14% of the City's $176,482,356 total budget for the 2012/13 fiscal year.

The City's Payroll Operations operate in a decentralized design as noted below:
- Employee hours are compiled in two ways:
  - Exempt employees (salaried administrative, managerial, and professional staff) are paid an annual salary, divided into 26 bi-weekly payrolls.
  - Hourly employees are paid based upon an hourly rate times the number of hours worked per week. Time worked in excess of 40 hours per week is overtime, paid at the rate of 1 ½ times their hourly rate.
  - Police Department sworn personnel (officers, sergeants and lieutenants) are paid under the terms of contracts negotiated by the Southwest Florida Police Benevolent Association (PBA).

- Each Department has staff designated as payroll preparers who compile employee hours (including leave) in Attendance Enterprise, the City's time and attendance software. Departmental supervisors/directors review and approve the bi-weekly reports prior to submission to the Financial Administration (Finance) Department's Payroll Division.

- The Financial Administration Department's Payroll Division is responsible for importing the time and attendance data for all city departments from Attendance Enterprise into Abra, the payroll software application. The Payroll Division is responsible for payroll preparation, maintenance, payroll tax preparation, and payroll reporting (quarterly and annual).

- The City's Human Resources Department is responsible for maintaining employee hourly pay rates, employment history, pay grades, promotions and the individual employee information portion of the Abra software application, including adding new employees and deactivating employees who have retired or left City employment.

AUDIT PURPOSE

This audit was undertaken to provide reasonable assurance that adequate controls exist and are functioning as intended over the City of Sarasota's Payroll Operations. The completion of an independent internal audit of payroll operations was included in the 2013 City Risk Assessment.

AUDIT SCOPE

The time period reviewed during the audit was January 1, 2013 to June 30, 2014 including all City Departments' procedures and processes in use.

AUDIT OBJECTIVES

The audit focused on the following objectives:

1. Determine whether adequate controls exist and are functioning as intended, including but not limited to: Access to records is limited and controlled, payments are made to valid employees only, all data input is properly authorized, data is accurate and complete, payments are correctly calculated, payroll costs are correctly recorded, and all required reports are prepared and filed in a timely manner.

2. Determine whether there is reasonable assurance that payroll general ledgers are reconciled accurately, timely, and approved by the appropriate authority.

3. Determine whether Payroll Operations complies with current City of Sarasota Policies and Procedures, Union Contracts, Administrative Regulations, Municipal Codes, State and Federal Regulations and Statutes.

AUDIT STANDARDS

The auditors conducted this audit in accordance with generally accepted government auditing standards. Those standards require that the auditor plan and perform the audit to provide a reasonable basis for findings and conclusions based on audit objectives. The auditor believes that the evidence obtained provides a reasonable basis for findings and conclusions based on the audit objectives.

The Internal Audit Division strives to follow the guidance included in the Institute of Internal Auditors (IIA) International Professional Practices Framework however the Standards do not allow the department to note that reports are prepared in accordance with IIA Standards until the peer review process indicates such compliance.

TESTING METHODOLOGY

In order to fulfill the audit objectives, Internal Audit:

- Surveyed city departments for implementation and controls relating to employee payroll;
- Performed site visits of the Finance and Human Resources Departments and interviewed appropriate personnel;
- Performed site visits of various departments to review department level payroll processing;
- Reviewed current payroll policies and procedures implementation;
- Reviewed the City's Payroll Rules and Regulations;
- Reviewed contracts negotiated with the Teamsters' Union and the Southwest Florida Police Benevolent Association (PBA);
- Reviewed employee access to payroll records and software systems; and
- Conducted sample and city-wide testing including payroll additions, deletions and changes, time off in various categories, phantom employees, net pay calculation, payroll, Social Security and unemployment tax payments and the timely issuance of W-2's among others.

AUDIT CRITERIA

Conditions observed during audit fieldwork were evaluated against the following sources:

- IRS, Social Security and State of Florida unemployment and tax reporting requirements
- City of Sarasota Charter and Administrative Regulations
- City of Sarasota Personnel Rules and Regulations
- City of Sarasota Departments' internal policies
- Union Contracts (Teamsters and PBA)

AUDIT CONCLUSIONS

Observations and recommendations in this report are offered as independent guidance to management for their consideration in strengthening controls. A complete list of Internal Audit's observations and recommendations begins on page 12 of this report. For information on priority levels assigned to audit recommendations, please see **Exhibit A**.

Internal Audit determined through fieldwork and testing:

CONTROLS AND ACCESS TO PAYROLL RECORDS WERE GENERALLY SATISFACTORY. PAYMENTS WERE MADE ONLY TO VALID EMPLOYEES. PAYMENTS WERE PROPERLY AUTHORIZED. PAYROLL COSTS WERE GENERALLY CORRECTLY RECORDED. THERE WERE GAPS IN EMPLOYEE PAYROLL DATA. PAYMENTS WERE GENERALLY CORRECTLY CALCULATED, HOWEVER, THERE WERE ERRORS AND OMISSIONS IN EMPLOYEE LEAVE CALCULATIONS.

- Based upon our reviews of processes and interviews with staff, there appears to be an adequate separation of duties related to payroll operations between Accounting and Payroll Systems and Human Resources to limit the risk of fraud or the diversion of resources.

- We noted that users with administrative rights in the Abra software can add employees and make changes to employee data (pay rates, banking information, deductions, etc.) without a secondary approval process.

- As noted at the beginning of this report, the City has a decentralized payroll system. One of the results of this is that payroll processes vary throughout the city. Each department has established their own procedures for collecting, preparing and maintaining employee time and attendance records. Some of these variations are caused by varying work schedules, work locations and employee contracts (Teamsters, Police Benevolent Association). Supervisory approvals of overtime and authorized leave are not always signed and maintained by each department or provided to Human Resources. Approval in some cases is only implied, because the supervisors approve the bi-weekly electronic timesheets.

- SPD maintains a completely manual time keeping system and only the sum total of weekly hours worked for sworn employees, along with times off are entered into the time and attendance software for employees. Non-sworn hourly employees swipe in and out. This is a cumbersome and labor intensive process that could lead to errors, fraud and abuse. Hourly employees should swipe in and out using the automated time management system if at all possible for greater accountability and error reduction. Use of the time and attendance and payroll applications varied in other departments

throughout the city from almost totally computerized to use of paper timesheets and similar documents.

- Allowable Sick Leave (Regulation 11.9(d), City Personnel Rules and Regulations) allows the Department Head, with the approval of the Director of Human Resources, to grant additional time for a leave of absence for illness, disability or maternity. Leaves of absence in excess of 72 hours also require the approval of the City Manager or City Auditor and Clerk for their respective employees.

  Regulation 11.14 states "When a Department Head recommends Other Leave for the purpose of promoting efficiency and increasing the standards of the Service, the City Manager or City Auditor and Clerk, for their respective employees, may grant such leaves with full or reduced compensation for such period as may be determined." This was one of a number of areas in the Personnel Rules and Regulations that require approval by the Director of Human Resources and/or the appropriate Charter Official. However, the regulations do not address how that approval is to be documented in most cases. Approval could be documented by use of a Personnel Action Paper, a Request for Leave form, or a memorandum or e-mail, as appropriate. Regulation 11.15(B) states that "The Personnel Action Forms are to be utilized to grant leaves of absences for periods longer than two (2) weeks…". However, as noted below very few PAP forms that we observed were signed by the City Manager.

- We noted several instances of individuals with negative balances in various categories of leave in the Abra system:
    - Three (3) employees had negative vacation balances of -138, -88 and -60 hours;
    - Three (3) employees had negative personal time balances of -13.5, -3 and -2 hours; and
    - 16 employees had negative sick leave balances that range from -427.5 to -2 hours; of those, 7 employees had negative sick leave balances equaling or exceeding 80 hours.
    - Three (3) employees with negative sick leave balances had positive vacation balances indicating that they had not used up other categories of time off before obtaining additional sick leave.

- Both Human Resources and Finance indicated that negative employee sick leave balances would be cleared at the start of the new anniversary year and each employee's sick leave balance would revert to 72 hours. We noted three instances in our sample where this did not occur.

- We noted that the regulations quoted below require authorization for leave extensions into the following year. We could not confirm that written approvals for these leave extensions were maintained.

    - Regulation 11.6 states in part "… Annual Leave may be carried over into the next employment year, provided such leave is taken within ninety (90) days, or as designated by the City Manager or City Auditor and Clerk for their respective employees. … upon the request of the Department Head, the recommendation of the Director of Human Resources and the approval of the City Manager or City Auditor and Clerk for their respective employees."

    - Regulation 18.7 addresses the accumulation of Run/Walk/Swim Fitness Program Leave (RWS) with similar restrictions. We noted that most employees have Vacation and/or RWS time accumulated. Some employees have very high balances accumulated. For example, five (5) employees had vacation balances between 439 and 925 hours. Similarly, we noted three (3) employees with accumulated RWS hours between 64 and 436.5 hours.

The following table provides the limitations on the accumulation of leave time:

| | From | ACCRUAL | |
		City	SPD
Vacation	Anniversary Date	90 days into next year	90 days into next year
Sick	Anniversary Year	72 hours per year*	9 days per year**
Bonus Time	Fiscal Year	No Limit	No Limit
RWS	12 Mo from date earned	90 days into next year	90 days into next year
Comp Time	Fiscal Year	Max 80 hours exempt Employees	Max 480 hours (Comp Court Premium)***
Holiday	As Earned	No Limit	No Limit

* Additional paid sick leave in excess of 72 hours may be approved.
** SPD has interpreted Regulation 11.9 (D) to mean 9 days of sick leave
(9 X 8 hours = 72 hours) and have provided hours appropriately
(10 hour shifts = 90 hours, 11.5 hour shifts = 103.5 hours)
*** Exceptions for Captain and above, Internal Affairs, Civilian employees

- For one employee, department documentation indicated the RWS hours balance were under reported by the department in Abra each pay period by 149.5 hours for at least 18 months. From the 11/13/13 pay period to the following 11/27/13 pay period the employee's RWS balance increased from 264 to 413.5 hours. No memo or other documentation was identified as to the change in RWS balance. The department's manual RWS records indicate the 413.5 hours were the correct total on 11/27/13. The Human Resources Department has since assumed responsibility for all adjustments to time-off entries in Abra for all city departments.

- Departments had high employee overtime hours:
    o One employee has 688 overtime hours year to date as of 9/26/14.
    o Utilities Department has 57 employees each with more than 80 hours of overtime. Total overtime for these 57 employees is 12,170 hours.
    o SPD has 49 employees each with more than 80 hours of overtime. Total overtime for these 49 employees is 6,369.35 hours.
    o Public Works Department has 10 employees each with more than 80 hours of overtime. Total overtime for these 10 employees is 2,469 hours.

    As of 9/26/14 year to date:
    o City employees earned 18,323.82 hours of overtime.
    o SPD employees earned 15,771.85 hours of overtime.
    o 754 employees City-wide earned 34,095.67 hours of overtime.
    o Use of overtime allows workplace flexibility without hiring additional full time employees and incurring benefit costs. This flexibility must be weighed against the additional costs incurred with overtime.

    For fiscal year 10/1/13 to 9/30/14 total employee overtime costs were:
    o City employees $787,583.73
    o SPD employees $993,968.21
    o Total $1,781,551.94

- The City's payroll (Abra) and time-keeping (Attendance Enterprise) software programs are designed to allow time to be accrued and expended as separate transactions. However, with the exception of vacation time for employees other than SPD sworn officers, all accruals for bonus days, RWS days, sick days, etc. are posted as a negative entry in the time expended field. This method of posting time can result in posting errors and can create issues in determining time earned or used.

    o Human Resources staff can monitor individual employee accruals in Abra by adjusting the accrual date. Employees can only review their time off balance available in Attendance Enterprise based on the biweekly Abra data import.
    o Timeentry@sarasota.gov email leave approval confirmations reference the employee's sick leave balance no matter the type of time-off requested and approved.

- The entire employee time keeping system in use requires substantial manual entry and adjustment that can lead to errors, fraud and abuse. Examples include: Human Resources must move each individual employee's department approved Comp Time extension from Comp Time to Comp C/O time at the end of the fiscal year to maintain the balance for an additional 90 days. Bonus days earned are added manually by Human Resources to individual employee's balance each quarter they do not take sick leave, with a 5th day being added when no sick leave is taken during the past 4 quarters. This requires Human Resources staff to review each employee for sick leave use prior to awarding the bonus day(s). Human Resources staff must also be cognizant of varying employee rules regarding time off earned depending on the individual employee's job position status.

- Employee termination is delayed if termination paperwork is not received from each department. This could lead to unauthorized phantom payments being made. For one employee, the last paycheck was issued 6/21/13. The recorded termination date was 2/24/14, eight months later. Records did not indicate that the employee worked after the last paid pay period.

PAYROLL GENERAL LEDGERS WERE RECONCILED ACCURATELY, TIMELY, AND APPROVED BY THE APPROPRIATE AUTHORITY.

- All payroll warrants tested were appropriately signed by the City Manager, City Auditor and Clerk, Finance Director and the Accounting and Payroll Manager or their designee.

- Balances for each of the four selected payroll periods were reconciled with no discrepancies identified.

- The payroll tax payments submitted matched the total amounts of the Withholding, Medicare and Social Security contributions noted on the individual payroll warrants.

PAYROLL OPERATIONS DID NOT ALWAYS COMPLY WITH CURRENT CITY OF SARASOTA POLICIES AND PROCEDURES, ADMINISTRATIVE REGULATIONS, MUNICIPAL CODES, STATE AND FEDERAL REGULATIONS AND STATUTES.

- 2013 Federal Form 941 (Employee Quarterly Federal Tax Returns) were filed in a timely manner and quarterly income tax withholding matched the total 2013 Form W-3 tax withholding.

- Federal taxable wages noted on the Social Security website matched the Form W-3 totals and the quarterly tax submission totals (Forms 941) for 2013.

- Timely payment of the Florida Department of Revenue quarterly reemployment tax was noted.

- Social Security confirmed the timely submission of city employee W-2's for 2013.

- We noted that numerous Personnel Action Papers (PAP) were not signed according to City policy, which requires approval by three different signers:
    - The appropriate department head,
    - The Human Resources Director,
    - The City Manager

    We examined a number of PAP forms related to employees falling under the City Manager's purview, and noted that the Human Resources Director or the Human Resources Manager signed on behalf the City Manager. PAP forms for new employee hires were approved by the Deputy City Manager. Appropriate delegations of authority were on file for the Deputy City Manager and the Human Resources Manager to sign on behalf of their respective supervisors. We were unable to verify that the appropriate delegation of authority had been completed for anyone other than the Deputy City Manager to sign PAP forms on behalf of the City Manager.

- We tested a sample of PAP forms for accuracy, completeness and timeliness. We noted three individuals with personnel actions but there were no PAP forms available in the PAP network drive. Human Resources staff was able to provide the auditor with PAP forms for these three individuals. Other employee files randomly selected for review at Human Resources were complete.

- As part of our sample for testing compliance with the City's processes for hiring new employees we identified one employee who was hired with a Social Security card that indicated "Valid For Work Only With DHS Authorization." We were unable to confirm any additional follow up undertaken by Human Resources to confirm the employee's legal work status prior to employment.

- Regulation 8.6 (A) requires that "Where overtime is deemed necessary by the Department Head, prior approval be obtained from the City Manager or City Auditor and Clerk for their respective employees." and that such approval be submitted to the Director of Human Resources with the payroll. Also, "Overtime for Police Officers is authorized based on the operational needs of the Department." Also, Regulation 8.8 addresses overtime for emergency work and requires "…the Department Head shall request, in writing, approval from the City Manager or City Auditor and Clerk…"

    We noted that in practice, approval for overtime has been delegated as low as the manager level in some departments, based on the operational needs of the department. Documentation of approval for overtime is inconsistent and we were not provided any evidence of prior approval from the City Manager. We also were not provided with any documentation of written approval for emergency overtime, in accordance with Regulation 8.8 noted above.

AUDIT OBSERVATIONS AND RECOMMENDATIONS

Issue #	Subject	Priority	Observation	Recommendation Internal Audit Comment (red text)	Concur	Do not concur	Management Response (black text) City Auditor and Clerk (green text) SPD Response (blue text)	Committed Action Item Due Date
1	PAP Form Signatures	High	We noted PAP forms were not always signed by the 3 required individuals, Department Director, the Director of Human Resources and the City Manager.	We recommend that PAP forms be completed in accordance with City's Personnel Rules and Regulations. In the event that any party decides to delegate his or her authority, that it be documented on the appropriate form and filed with the custodian (the Purchasing Manager) designated by City policy. Auditor's Comments – City Rules 11.9.D, 11.13.A, 11.13.B and 11.14.C specify the requirement for the signature of the City Manager or City Auditor and Clerk for their respective employees. See also the PAP form attached to Rule 11 for the required signatures. SPD PAP forms still require the signature of the City Manager.	City Manager	CAC SPD	City Manager - Management recommends the Director of Human Resources utilize the "Authorization Signature of Internal Documents by Department's form to document approval to sign PAPs on behalf of the City Manager. The Director of Human Resources will request authorization to sign as a designee for the City Manager and City Auditor and Clerk and if authorization is not granted then the Charter Officials will be asked to sign the PAPs. The City Auditor and Clerk does not delegate her signature authority and will personally sign the PAP forms for employees in the office of the City Auditor and Clerk. SPD - All PAP's are signed by our Chief or Deputy Chief of Police.	City Manager 3/31/15

Issue #	Subject	Priority	Observation	Recommendation **Internal Audit Comment** (red text)	Concur	Do not concur	Management Response (black text) SPD Response (blue text)	Committed Action Item Due Date
2	Lack of Signed Supervisory Approvals for Leave	High	Some departments were not documenting supervisory approval of time off, in particular sick leave in excess of 72 hours. Rule 11.2.E states in part "Department Heads are required to provide documentation in the event an employee is authorized absence with or without pay by using the Request for Leave form."	Departments implement procedures to maintain signed copies of supervisory approvals as required for all categories of time off. Auditor's Comments - As noted in the Observation, we observed a lack of documentation of supervisory approval of time off, specifically related to sick leave exceeding 72 hours. These leave approvals require the signatures of the Department Director, the Human Resources Director and the appropriate Charter Official. As noted in the Observation section, Rule 11.2.E states the Request for Leave form is to be used to document authorized absences. Rule 11.15.A specifies the use of the Request for Leave form for all approved absences. Rule 11.15.B requires the use of the PAP forms for leave lasting more than two (2) weeks.		City Manager SPD	City Manager - The Human Resources Department monitors the leave requests that are required by the City's Rules and Regulations and notifies departments on outstanding leave approval slips. Only specific approvals are required to be received by Human Resources and retained in employees' files. A report is run that indicates that leaves requiring an attendance slip to be completed. This report is tracked by Human Resources as the leave slips are received. Supervisor and department head approval of time within the time and attendance system is not considered implied approval but rather explicit approval of all time worked for their unit or department. Time off requests can be, and are for most departments, an automated process within the Time and Attendance software. The approval process for this time off is electronic and signed copies would not be needed. SPD - Any leave in excess of 72 hours, the employees must use personal time. If and when that is exhausted, a memo to the Chief of Police must be submitted requesting an extension. That memo is kept on file with Payroll and Personnel.	

Issue #	Subject	Priority	Observation	Recommendation Internal Audit Comment (red text)	Concur	Do not concur	Management Response (black text) SPD Response (blue text)	Committed Action Item Due Date
3	Negative Leave Balances	Medium	Some employees have negative leave balances. This most often occurs in cases where an employee is awarded additional Sick Leave beyond the 72 hours of annual Sick Leave specified in the Personnel Policies and Regulations. Human Resources is able to generate a report showing all negative balances on a bi-weekly basis and notify departments to make adjustments.	Human Resources should review all negative leave balances and a consistent policy established as to how negative balances will be handled. Auditor's Comments – Despite Human Resources and department adjustments, negative leave balances are still noted in ABRA employee leave balances. Negative balances are a potential loss of funds to the City.		City Manager SPD	City Manager - Human Resources reviews negative balances within ABRA's attendance module on a bi-weekly basis. Departments are notified verbally or via email to address the issues. Generally a request will be made to rectify the negative balance by using another leave balance that is available and not in the negative, i.e. bonus time instead of vacation time. Negative balances can then be eliminated from the employee's attendance file. SPD - A report is run after payroll is complete on any negative employee balances. All sick leave over 9 days approved by the Chief of Police will stay in Abra and show a negative balance until it turns over on the employees anniversary date; at which time it will zero out.	

Issue #	Subject	Priority	Observation	Recommendation Internal Audit Comment (red text)	Concur	Do not concur	Management Response (black text) SPD Response (blue text)	Committed Action Item Due Date
4	Employee Overtime	Medium	Three departments have employees with high overtime hours. The City paid $1,781,551.94 in overtime costs in FY 2014. We recognize overtime is often a result of emergency operations or minimum staffing requirements.	Each Department should review their overtime use and evaluate alternative options where possible.	City Manager	SPD	City Manager - During the budget process each year all Departments review their staffing requirements and analyze their overtime requirements to determine how to best minimize the need for overtime. The analysis includes cost comparisons to determine if additional full time equivalents are necessary or whether paying the current staff overtime is the most cost effective. However, contract with bargaining units have minimum manning stipulations that require the payment of overtime under certain conditions. SPD - Payroll runs a report after payroll is complete and distributes to the Chief of Police, Deputy Chief, Captains and Support Services Manager. All discretionary overtime must be approved by supervisors if employee hours cannot be adjusted. Patrol Division currently has overtime issues due to PBA contract.	City Manager Annually

Issue #	Subject	Priority	Observation	Recommendation **Internal Audit Comment** (red text)	Concur	Do not concur	**Management Response (black text)** **City Auditor and Clerk (green text)** **SPD Response (blue text)**	**Committed Action Item Due Date**
5	High Accrued Leave Balances	Medium	City Personnel Rules and Regulations place limits on the accrual of Vacation and Run/Walk/Swim leave but include a clause allowing the City Manager or City Auditor and Clerk to authorize the accrual. The policies do not identify any methodology for documenting the authorization.	We recommend a process be developed to allow Charter Officials (and Department Heads) to review leave balances on a quarterly basis and document their approval of the current leave balances. Auditor's Comments - This recommendation is not limited to the accumulation of vacation hours. Auditors noted significant accumulations of hours in other categories such as Run/Walk/Swim, Holiday and Bonus Days.	City Manager CAC		City Manager - The Human Resources department can provide vacation balances to Charter Officials and Department Heads on a quarterly basis for review. Extension for vacation and expiration of attendance time must be uniformly applied across all departments and Charter Officials. Management recommends that all employees are subject to the same standards and requirements per the current rules regardless of department or division. Management recommends allowing a grace period for the employees out of compliance to use this time or it will expire within a set time period. City Auditor and Clerk - We concur that a process should be developed to allow Charter Officials the opportunity to review leave balances on a quarterly basis and acknowledge current leave balances of employees. It is suggested that Human Resources provide a report indicating current leave balances and expiration dates. The Office of the City Auditor and Clerk is in compliance with the current regulations regarding accumulated time including Compensatory Time. The Exempt Staff supporting the City Commission for Commission meetings in the Office of the City Auditor and Clerk is very small and backup for the Staff working at Commission meetings is not possible. For that reason, certain Staff accumulate a large number of hours in the form of Compensatory Time.	City Manager 3/31/15 CAC Ongoing

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5	High Accrued Leave Balances						In the past, management approved for exempt Staff to carryover the time if taking the time off was not possible which is the reason large back balances have been accumulated. Several avenues may be possible to reduce the large accumulated balances. Every effort should be made to reduce large accumulated approved balances but it is just not possible to reduce all back balances without a major negative impact on some employees. Some suggestions include: offer employees the opportunity to "buy back" a week of time, for example (this has been done previously); allow "flex time" so more hours are not accumulated by the same small Staff; pay down the larger back balances over a certain amount over an extended period; have employees take earned time by a certain dates or pay down smaller back balances. Management will make every effort to assure staff is encouraged to take necessary earned leave as requested and when possible.	

Issue #	Subject	Priority	Observation	Recommendation Internal Audit Comment (red text)	Concur	Do not concur	Management Response (black text) SPD Response (blue text)	Committed Action Item Due Date
6	Department Leave Balances	Medium	Individual employee department leave balances did not always match the Abra leave balances.	We recommend each department compare their documented leave balances against the Abra system balances and resolve any discrepancies. Auditor Comments - We noted in our testing that an employee's accrued Bonus time was adjusted based upon Department documentation. In reviewing the transaction we noted that Bonus, Run/Walk/Swim and Personal time had previously been accrued to Holiday time. We noted similar accruals for other employees in the same department. The adjustment did not impact any other accrued time, particularly the Bonus hours accrued in Holiday time. There was not always documentation to explain changes made to individual employee leave balances. We noted multiple instances in our testing and reviews where balances were adjusted in various categories of leave with no explanation or in some cases, a limited explanation. These transactions raise questions regarding the adequacy of controls in place over adjustments to accruals.	SPD	City Manager	City Manager - The HRIS system (ABRA) has an attendance module that is used throughout the City for accrual and tracking of attendance time for all employees. Each department does not establish their own procedures for tracking attendance time; ABRA has an attendance module that is used for citywide attendance plan monitoring. The Police Department's sworn officers are the only unit that does not accrue vacation time within the HRIS system. An element of their vacation process is governed by the collective bargaining agreement and is in discussion currently. Again this is an efficiency process that we are currently discussing during the negotiation process. SPD - will work out a process with HR to correct discrepancies. Suggested solution is run a quarterly report to be sent to HR to balance against Abra. Any discrepancies can be researched by SPD Payroll prior to the balance being corrected.	SPD 6/1/2015

Issue #	Subject	Priority	Observation	Recommendation Internal Audit Comment (red text)	Concur	Do not concur	Management Response (black text) SPD Response (blue text)	Committed Action Item Due Date
7	Time & Attendance Tracking	Medium	The City acquired time and attendance software (Attendance Enterprise) to allow non-exempt employees to enter their time in and out by swiping a card and to track leave requests for all employees. The level of implementation varies across the City. Some departments are using manual time & attendance tracking before entering the data into Attendance Enterprise.	We recommend staff from the Payroll Division offer to consult with the departments using a manual process to increase the use of the City's time and attendance software and reduce the current duplication of efforts. Auditor's Comments - We noted that all departments are using the time and attendance software. We also noted that some departments are still using manual processes to accumulate time worked before posting the time to the time and attendance software resulting in reduced efficiency and additional steps with the potential for errors.			City Manager - The Payroll Division is always willing to provide assistance to departments to become more efficient utilizing existing resources. As modifications are made to collective bargaining agreements, it is expected that automation of additional functions will become more practical.	City Manager 2016

Issue #	Subject	Priority	Observation	Recommendation **Internal Audit Comment** **(red text)**	Concur	Do not concur	**Management Response (black text)** **SPD Response (blue text)**	Committed Action Item Due Date
8	Overtime	Medium	Regulation 8.6 (A) requires that "… prior approval be obtained from the City Manager or City Auditor and Clerk for their respective employees and that such approval be submitted to the Director of Human Resources with the payroll. Overtime for Police Officers is authorized based on the operational needs of the Department." Regulation 8.8 addresses overtime for emergency work and requires "…the Department Head shall request, in writing, approval from the City Manager or City Auditor and Clerk…" We noted that in practice, approval for overtime has been delegated as low as the manager level in some departments, based on the operational needs of the department. Documentation of this approval process is inconsistent. We were not provided with any documentation of written approval for emergency overtime, in accordance with Regulation 8.8.	We recommend Regulations 8.6 (A) and 8.8 be reviewed for possible modification to reflect actual processes currently in place or that the Regulations currently in place be enforced as written.	City Manager SPD		City Manager - Management would recommend a review and update of the Overtime approval and authorization rule to reflect the current practice that is necessary for the departments to manage effectively. City Auditor and Clerk – We are in compliance with the current regulations. SPD - We do not have scheduled overtime, so Rule 8.6 A would not apply. However, we do have emergency overtime issues with non-exempt employees. They have their overtime authorized in writing by their immediate supervisor and the Division Captain's signature as well. Written reason for emergency overtime will now be included on the OT slip. Written communication to HR was sent via email suggestion Rules & Regulation 8.6A and 8.8 be amended to reflect actual practice.	City Manager 2016 SPD 6/1/2015

Issue #	Subject	Priority	Observation	Recommendation **Internal Audit Comment** **(red text)**	Concur	Do not concur	Management Response (black text) **SPD Response (blue text)** **Internal Audit Comment** **(red text)**	Committed Action Item Due Date
9	New Hire Employee Documentation Verification	Medium	One new hire employee's documentation included a Social Security card indicating "Valid For Work Only With DHS Authorization." No additional follow up was undertaken.	Human Resources should review existing procedures to ensure all newly hired employees are screened for proper documentation. Auditor Comments – A job offer is made contingent upon the production of adequate personal documentation by the applicant. Hiring an employee like the example without proper I-9 documentation could result in fines from $375 to $14,050 for knowingly hiring and a fine of $110 to $1,100 for technical violations as per ICE Form I-9 Inspection-Overview http://www.ice.gov/factsheets/i9-inspection. Management indicated they did not concur with the recommendation, but Human Resources implemented a new procedure for future exceptions. Internal Audit will follow up on this finding to determine if the new process is adequate or if further action is required.		City Manager	City Manager - The 19 forms and process is governed by Department of Homeland Security and it is against the law to request identification documents prior to an offer of employment. Human Resource staff discussed the issue with the City Attorney and any future incidents that are unclear will be reviewed immediately by the City Attorney. No further action needed.	

EXHIBIT A: INTERNAL AUDIT RECOMMENDATION PRIORITIES

Internal Audit utilizes the following classification scheme applicable to internal audit recommendations and the appropriate corrective actions:

Priority Level[1]	Description	Implementation Action[3]
High	Fraud or serious violations are being committed or have the potential to occur, security issues, significant financial or non-financial losses are occurring or have the potential to occur.[2]	Immediate
Medium	A potential for incurring moderate financial or equivalent non-financial losses exists.[2]	Within 60 days
Routine	Operation or administrative process will be improved.	60 days to 6 months

1. The City Auditor and Clerk is responsible for assigning internal audit recommendation priority level categories. A recommendation that clearly fits the description for more than one priority level will be assigned the higher level.

2. For an audit recommendation to be considered related to a significant financial loss, it will usually be necessary for an actual loss of $25,000 or more to be involved, or for a potential loss (including unrealized revenue increases) of $50,000 to be involved. Equivalent non-financial losses would include, but not be limited to, omission or commission of acts on behalf of the City which would be likely to expose the City to adverse criticism in the eyes of its citizens.

3. The implementation time frame indicated for each priority level is intended as a guideline for establishing target dates. Determining proposed action dates is the responsibility of the Charter Official(s) over the area(s) or function(s) audited.

NOTE: Please note that this exhibit is a standard form which <u>appears</u> in every audit and is meant to be utilized to aid management in understanding the seriousness or potential seriousness of an audit observation. A "High" or "Medium" priority rating assigned to an audit observation should not be construed to mean that fraud or wrongdoing is, in fact, occurring but rather fraud or wrongdoing has the potential to occur in the absence of adequate internal controls.