

## EXECUTIVE SUMMARY

The Office of Public Integrity examined the adequacy of the procedures used to account for employee paid duty hours, the effectiveness of internal control in the payroll process, and the extent of compliance with approved policies and practices for employees in the Department of Environmental Services, Special Services Division.

The results of the review indicate that payroll records and the corresponding system of internal controls over employees' reported time are generally reliable. However, certain deficiencies exist that require management attention.

- Special Services could not locate authorization documents for 41 of the 827 occurrences of overtime in the scope period. Special Services policy requires the completion of these documents for all overtime.
- The Office of Public Integrity noted that 73 of the 449 HRS time cards examined have unauthorized alterations that change previously recorded information on the time cards. This condition potentially allows unauthorized and improper alterations of previously recorded and approved information.

## II. BACKGROUND, OBJECTIVES AND SCOPE

### A. Assignment

The Office of Public Integrity (OPI) routinely includes payroll system reviews in its annual work program. OPI selected the Department of Environmental Services (DES), Bureau of Operations and Parks, Special Services Division for this review.

### B. Background

The Special Services Division provides cleaning and maintenance services. This includes maintaining vacant lots, sweeping residential and arterial streets, performing emergency cleanups, removing graffiti and preparing and restoring public areas for civic events. Additionally, Special Services is responsible for curbside loose leaf collection in the fall and, for snow and ice control in the winter. During the scope period of this review, 90 weekly and seven bi-weekly employees worked in the Division including 23 Street Maintenance employees that the Bureau of Operations and Parks annually transfers to Special Services during the winter months for snow related duties.

Special Services utilizes an automated Kronos punch card system for all workers paid on a weekly basis. The system requires workers paid on a weekly basis to utilize proximity cards to record an "in" and "out" time stamp on the computer system for each work day. At the end of each time period, supervisors print out a time report generated by the Kronos system and check it for accuracy.

To ensure accuracy in transcribing data and timeliness of completion, supervisors or clerical staff complete the Human Resource System (HRS) time card by transferring the information on the time report directly to the HRS card. Employees sign their completed cards. Supervisors then forward the completed HRS cards and time reports to the payroll clerk who re-checks them for accuracy before submitting them for payment.

### C. Objective and Scope

The objectives of the review were to determine the adequacy of procedures used to account for employee paid duty time, the effectiveness of internal control in the payroll process, and the extent of compliance with approved policies and practices.

In the review, we examined all payrolls paid to all weekly and bi-weekly employees assigned to Special Services during the month of January, 2010. There were 90 weekly employees and seven bi-weekly employees assigned to Special Services during that period. For each employee in each pay period, OPI examined detail information recorded on the Human Resource System payrolls and compared it to source records including documentation in personnel files, time cards, and supporting documentation for authorized overtime. We examined 427 time cards applicable to weekly employees and 22 time cards applicable to bi-weekly employees.

Management is responsible for establishing and maintaining a system of internal accounting and administrative control. Fulfilling this responsibility requires estimates and judgments by management to assess the expected benefits and related costs of control procedures. The objectives of a system are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of accurate, informative reports that are fairly stated.

Because of inherent limitations in any system of internal accounting and administrative control, errors or irregularities may nevertheless occur and not be detected. Also, projection of any system evaluation to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the degree of compliance with procedures may deteriorate.

The recommendations presented in this report include the more significant areas of potential improvement that came to our attention during the course of the examination, but do not include all possible improvements that a more extensive review might develop.

III. RESULTS OF REVIEW

OPI examined payroll and personnel records required by City and Department policy to determine compliance with those policies. Generally, based on the examination of the documents and the results of various audit tests, payroll records originating within Special Services, and the corresponding system of internal controls over employees' reported time are reliable, accurately reflect duty time, and meet the internal control objectives of the payroll system. However, certain deficiencies exist that require management attention to ensure compliance with City and Department policy. The following table summarizes these errors:

| <u>Week<br/>Ending</u> | <u>Time<br/>Cards<br/>Examined</u> | <u>Occurrences<br/>Of<br/>Unauthorized<br/>Overtime</u> | <u>Corrections<br/>To HRS<br/>Card Not<br/>Initialed</u> | <u>HRS Card<br/>Not Signed<br/>By<br/>Employee</u> |
|------------------------|------------------------------------|---------------------------------------------------------|----------------------------------------------------------|----------------------------------------------------|
| 1/02/10                | 86                                 | 15                                                      | 27                                                       |                                                    |
| 1/09/10                | 99                                 | 15                                                      | 12                                                       |                                                    |
| 1/16/10                | 85                                 | 2                                                       | 13                                                       |                                                    |
| 1/23/10                | 93                                 | 7                                                       | 18                                                       | 1                                                  |
| 1/30/10                | 86                                 | 2                                                       | 16                                                       |                                                    |
| Total                  | <u>449</u>                         | <u>41</u>                                               | <u>86</u>                                                | <u>1</u>                                           |

A. Overtime Hours Not Always Documented On Daily Overtime Authorization Sheets

Special Services requires the maintenance of daily overtime authorization documents that the Division uses to record employees scheduled for overtime. OPI compared employee overtime hours listed on HRS time cards to corresponding hours on the overtime authorization documents. We noted 827 occurrences of overtime in the test period and Special Services could not provide overtime authorization sheets for 41 of these occurrences.

Special Services policy requires that supervisors complete these documents for all overtime. Additionally, overtime authorization documents are important because they provide a control by confirming to payroll clerks and management that supervisors authorized the necessity of overtime hours.

♦ RECOMMENDATION

Special Services should ensure that supervisors complete overtime authorization documents for all overtime.

B. Corrections On HRS Card Not Initialed

OPI noted 73 of 449 HRS time cards examined had unauthorized alterations changing previously recorded information on the time cards. These alterations include the use of white-out, and recording new information. The alterations are unauthorized because the City cannot establish responsibility for the changes to the cards. Administrative Policy 4210, 4.2.4 requires an employee's immediate supervisor to initial any changes or corrections made on a time card.

Non-compliance with this payroll policy affects the ability to identify the originator of changes made on employee time cards and potentially allows unauthorized and improper alteration of information that has already been recorded and approved on the time cards.

♦ RECOMMENDATION

The Bureau of Operations and Parks should ensure that the preparation of time cards conforms to Administrative Policy 4210.

IV. DEPARTMENTAL RESPONSE

The response of the Department of Environmental Services to this report begins on the next page.

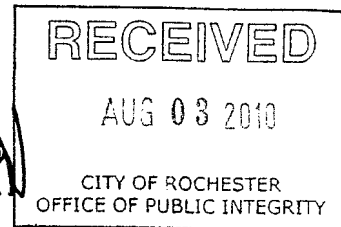


To: Dan Markese, Manager of Internal Audit

From: Paul M. Holahan, Commissioner of Environmental Services

Date: July 28, 2010

Subject: Response to Special Services Division Payroll Audit



I have reviewed the draft audit report from the payroll audit of Special Services for the month of January 2010. I agree with your findings that indicate that Special Services has internal controls that are generally reliable for reporting employee time; however, I am concerned with the deficiencies noted with respect to completion of appropriate documentation for employee overtime and authorization for changes to time cards.

The department will takes steps to enforce the proper completion of overtime authorization forms, commonly referred to as "B" sheets, with supervisors in Special Services as well as other divisions across the Bureau of Operations and Parks.

In addition, the department will address with supervisors and timekeepers across the department the need to initial any changes made to time cards.

Thank you for your efforts.

xc: Mary Gaudioso, Assistant Commissioner  
Chris Wagner, Director of Operations  
Karen St. Aubin, Manager of Special Services

