Water Department
Payroll Processing

June 21, 2019

Report Highlights

Payroll Processing
Overall, payroll exception forms were processed and approved according to A.R. 2.21.

Call Out Overtime
We found inconsistencies in how call out pay is reported and approved; overpayments to employees may be occurring.
Executive Summary

Purpose

Our purpose was to determine that controls are in place over exception pay processing and to evaluate whether payroll transactions were accurate, authorized, and in compliance with City policy.

Background

The Payroll Division (Payroll) of the Water Services Department (Water) processes payroll on an exception basis. All regular pay is programmed in eCHRIS based on the full- or part-time status of each employee. If an employee takes leave, or has other exception items to pay (e.g., overtime, call out, standby pay, and shift differential), payroll staff inputs these exceptions, which has the effect of changing the employees’ regular base pay for that pay period.

We reviewed exception pay for Water from July 1, 2017 through June 30, 2018. We specifically reviewed overtime, call out, standby pay, and shift differential. There is no system in place that processes the exception pay automatically. Payroll is responsible for coding the exception pay forms and entering each exception code into eCHRIS.

The total value of the leave and exception pay processed during fiscal year 2018 was $22 million. The total amount of the pay codes reviewed was $3.9 million. The pay codes selected for testing were overtime, call out, standby pay, and shift differential. We reviewed approximately three percent of the pay codes selected for testing, for a total of approximately 650 exception forms.

We interviewed the supervisors in the field to determine the process by which they ensure the exception time is worked, and how the approval process works.

Results in Brief

Overall, the hard copy exception forms were processed and approved according to A.R. 2.21.

We reviewed approximately 650 hard copy exception forms. During our testing, we found four exception forms that were not signed by a supervisor to document approval. No other exceptions were noted.

There are no documented department procedures that outline how Water staff is to report and approve exception pay.

In our interviews with Water supervisors, we determined that there is not a consistent understanding among supervisors of (1) how employees should fill out the forms, and (2) the responsibility for making sure time reported was worked, and was in accordance with City policy and union guidelines. When exception forms are received by payroll,
payroll enters the time and exception codes on the form. Payroll does not have any knowledge of the time worked, and cannot verify if the time on the form is correct.

*Our review indicated that there are inconsistencies in how call out pay is reported and approved, this could result in overpayments to employees.*

There are inconsistencies in how employees complete the exception forms. Call out overtime presents the City with the biggest opportunity for error. Our testing was not sufficient to determine if employees were overpaid. Payroll transactions that occurred up to one year ago cannot be easily analyzed to determine whether the employee worked the stated hours. Ensuring that only time worked is submitted is the responsibility of the supervisor. The employee and the supervisor should understand the call out pay process, and that the employee must only submit time for actual hours worked.
**Department Responses to Recommendations**

<table>
<thead>
<tr>
<th>Rec. #: 1.1</th>
<th>Consider replacing the hard copy exception form with an electronic exception form that would incorporate automated routing and approvals.</th>
<th><strong>Response:</strong> Water Services Department staff will reach out to the Information Technology Services Department to determine the feasibility of transitioning to an electronic exemption form and/or determine if there is a mechanism in that could be utilized to automate routing and approvals.</th>
<th><strong>Target Date:</strong> Aug. 4, 2019</th>
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<tr>
<td><strong>Explanation, Target Date &gt; 90 Days:</strong> N/A</td>
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<th>Rec. #: 2.1</th>
<th>Develop procedures for Water staff on how to report call out pay.</th>
<th><strong>Response:</strong> Water Services Department Human Resources staff will form a working group, create, and review procedures for staff to complete and supervisors to review the form used for reporting call-out pay.</th>
<th><strong>Target Date:</strong> Aug. 19, 2019</th>
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<td><strong>Explanation, Target Date &gt; 90 Days:</strong> N/A</td>
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<th>Rec. #: 2.2</th>
<th>Train Water staff on how to report call out pay to ensure exception forms submitted to Payroll are consistent and accurate.</th>
<th><strong>Response:</strong> Water Services Department Human Resources staff will conduct training for supervisors and employees over a one- to two-month period from the time that procedures are completed.</th>
<th><strong>Target Date:</strong> Oct. 18, 2019</th>
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<td><strong>Explanation, Target Date &gt; 90 Days:</strong> Water Services Department Human Resources staff will conduct training for supervisors and employees over a one- to two-month period from the time that procedures are completed.</td>
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<th>Rec. #: 2.3</th>
<th>Develop procedures for Water supervisors on how to review exception forms.</th>
<th><strong>Response:</strong> Water Services Department Human Resources staff will form a working group, create, and review procedures for staff to complete and supervisors to review the form, used for reporting exceptions.</th>
<th><strong>Target Date:</strong> Aug. 19, 2019</th>
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<tbody>
<tr>
<td><strong>Explanation, Target Date &gt; 90 Days:</strong> N/A</td>
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**Rec. #:** 2.4 Train Water supervisors on how to review exception forms and to ensure time submitted was actually worked.

| Response: Water Services Department Human Resources staff will conduct training for supervisors and employees over a one- to two-month period from the time that procedures are completed. | **Target Date:** Oct. 18, 2019 |

**Explanation, Target Date > 90 Days:** Due to the number of field locations and the nature of training Water Services Department staff and supervisors working shifts for 24-hour operations, we anticipate it could take beyond the 90-day window from when the audit is finalized but will strive to complete training sooner, if possible.
1 – Payroll Processing

Background

The Payroll Division (Payroll) of the Water Services Department (Water) processes payroll on an exception basis. Exception pay is all pay that is an adjustment of the employees’ regular base pay. All regular pay is programmed in eCHRIS based on the full- or part-time status of an employee. If an employee takes leave, or has other exception items to pay, payroll staff inputs those exceptions to adjust the employees’ regular base pay for that pay period.

There is an exception pay form that must be completed by the employee for payroll staff to process the exception pay. The supervisor must approve the exception pay form to ensure the employee was entitled to the hours documented, and that the time reported was worked.

The payroll clerks process all the exception forms on the Monday before payday. The clerks review the forms to ensure they are complete and mathematically accurate. Then the clerks code all the hours noted on the hard copy forms with the appropriate pay codes. Once they have coded all the hard copy forms, they input each form into eCHRIS. This is done in batches. At the end of each batch, the clerks must reconcile what was entered into eCHRIS, to the pay codes, and to the hours noted on the exception forms. This is done for each batch until all exception time is entered, and is accurate based on the batch reconciliations.

We obtained a master payroll download from eCHRIS for all Water employees. This included regular pay and exception pay. Our testing included only overtime, call out, standby pay, and shift differential exception pay. We reviewed hard copy exception forms for fiscal year 2018. The exception pay codes we selected for review totaled $3.9 million. We reviewed a selection of hard copy files for approximately $130,000 (3%) of exception pay.

We reviewed the hard copy files to determine if:

- The forms were completed and signed by the employee
- The forms were approved with the supervisor’s signature
- The pay code matched what was in eCHRIS
- The pay amount matched what was in eCHRIS
- The exception codes were accurate based on the unit of the employee
Results

*Overall, the hard copy exception forms were processed and approved according to A.R. 2.21.*

We reviewed approximately 650 hard copy exception forms. We selected a sample of eCHRIS entries for our selected exception pay types, then tested eCHRIS entries to the hard copy exception forms. We also performed reverse testing by selecting a random sample of completed exception forms, and compared them back to eCHRIS, to ensure the forms completed by employees were being accurately processed and entered into eCHRIS. During our testing, we found four exceptions (forms that were not signed, as being approved, by a supervisor). No other exceptions were noted.

The current process of using hard copy exception forms is very time intensive. In addition, there may be multiple forms submitted by the employee for the same pay code and hours worked. Based on our testing, the payroll clerks are accurately removing duplicate forms prior to payroll being processed. However, the large volume of hard copy forms payroll clerks are required to review each pay period increases the risk of overpayments.

Recommendations

1.1 Consider replacing the hard copy exception form with an electronic exception form that would incorporate automated routing and approvals.
## 2 – Exception Pay Testing

### Background

Administrative Regulation (A.R.) 2.21 *Overtime, Call Out, Standby Pay and Shift Differential* provides guidance on how the above exception pay items are paid and calculated for employees Citywide. The A.R. states that if a conflict exists between the language of the A.R. and the language of any negotiated Memorandums of Understanding (MOU) or Memorandum of Agreement (MOA), the MOU/MOA shall prevail.

Water employees eligible for exception pay are members of unit 2, unit 3, and unit 7. The MOUs and MOA describe what each employee in that unit is eligible for as it relates to additional pay per hour for the different pay types. The rates differ among the different units.

Call out pay is defined by A.R. 2.21 as time worked by an eligible employee who is called out for work after going home from a shift, or who is called out for overtime work while on standby pay. The employee shall receive call out pay according to the guidelines set forth in the applicable MOU or MOA.

Employees that work call out are paid at the same rate as regular overtime. Three hours is the minimum amount paid for call out. If an employee is called out for less than three hours, they are paid for three hours with no travel time paid. If the employee works the three-hour minimum, or longer, the employee should receive travel time of 45 minutes. However, if the employee has a take home vehicle, he/she should not be paid for travel time.

We interviewed supervisors in each division of Water to determine what the process is when an employee works any shift that requires an exception form to be completed.

### Results

*There are no department procedures in place that outline how Water staff is to report and approve exception pay.*

In our interviews with Water supervisors, we determined that there is not a consistent understanding among supervisors of (1) how employees should fill out the forms, and (2) the responsibility for making sure time reported was worked, and was in accordance with City policy and union guidelines. When exception forms are received by payroll, payroll enters the time and exception codes on the form. Payroll does not have any knowledge of the time worked, and cannot verify if the time on the form is correct. The payroll clerks are required to process the forms based on what is reported on the forms, with the exception of call out pay.
Our review indicated that there are inconsistencies in how call out pay is reported and approved, this could result in overpayments to employees.

There is not a procedure in place that outlines how call out pay should be reported and reviewed. The MOUs and MOA, as they relate to call out pay, state that there is a three-hour minimum paid for call out pay, and if the minimum hours are met, or exceeded, travel time of 45 minutes is added to the pay. Payroll is responsible for reviewing the forms. If the three-hour minimum is not worked, the payroll clerk codes it for three hours. If the three-hour minimum is met, the payroll clerk adds the 45 minutes of travel time. It is the responsibility of the employee to fill out the form based on the actual hours worked. The supervisor should be responsible for reviewing the form to verify the time entered on the form was the actual time worked, prior to approving and submitting the form to Payroll.

There are inconsistencies in how employees complete the exception forms. Call out overtime presents the City with the biggest opportunity for error. In some instances, it appears that employees are putting three hours on the exception form, even when the three hours is not worked, to ensure he/she gets paid the minimum hours. However, in that case, the payroll clerk would assume the three hours entered is actual time worked and add 45 minutes for travel time. This could result in multiple overpayments of 45 minutes at time-and-a-half. In our review of exception forms, we also found that employees appear to be breaking up a shift into two shifts, if it starts on one day and carries over into the next day. This should be considered one instance. If it is counted as two instances, the payout for travel time could be overstated.

Our testing was not sufficient to determine if employees were overpaid. Payroll transactions that occurred up to one year ago are not easily analyzed to determine whether the employee worked the stated hours. The supervisor is the control to ensure that only time worked is submitted. The employee and the supervisor should understand the call out pay process. They should only submit hours worked, and should not submit the three-hour minimum if the three hours were not actually worked.

Recommendations

2.1 Develop procedures for Water staff on how to report call out pay.

2.2 Train Water staff on how to report call out pay to ensure exception forms submitted to Payroll are consistent and accurate.

2.3 Develop procedures for Water supervisors on how to review exception forms.

2.4 Train Water supervisors on how to review exception forms and to ensure time submitted was actually worked.
Scope, Methods, and Standards

Scope

We reviewed Water payroll transactions occurring July 1, 2017 through June 30, 2018. Detailed testing was performed on exception pay codes (pay that is an adjustment to employees’ regular base pay). For our review of call out overtime, we reviewed more recent transactions occurring October through December 2018.

Methods

We used the following methods to complete this audit:

- We interviewed supervisors at all levels of Water to determine what the process is, for both the employee and supervisor, for completing an exception pay form.
- We reviewed payroll reports and selected a sample of pay codes to review.
- We performed hard copy file testing on eight different exception pay codes.
- We reviewed the AVL system to determine how it could help with controlling employees’ work hours and what is reported.

Unless otherwise stated in the report, all sampling in this audit was conducted using a judgmental methodology to maximize efficiency based on auditor knowledge of the population being tested. As such, sample results cannot be extrapolated to the entire population and are limited to a discussion of only those items reviewed.

Standards

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the performance audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.