

Contracted City-wide Payroll Audit Phase I

CO25-03



This Audit Report has been approved for release and has been transmitted to the individuals listed below.

Original Signed

Robert Snyder
Chief Internal Auditor

Report Distribution:

City Manager

Deputy City Managers

Director of Finance

Chief Human Resources Officer

December 5, 2024

CO25-03



Executive Summary

Contracted Audit Report

City-wide Payroll Audit Phase I (CO25-03)

Background: The Office of Internal Audit (OIA) had identified payroll as an area for audit activity for many years based on the level of expenditures and turnover of key personnel with payroll responsibilities. OIA requested a supplemental budget request to use our contingency audit contractor to conduct the payroll audit. OIA utilized our contingency audit contractor, CBIZ Risk and Advisory Services, to conduct the engagement. CBIZ conducted the audit and issued recommendations which have been reviewed by OIA and issued to departments.

Objective and Scope: The objective of the audit was to review policies and procedures and examine payroll data for the prior five (5) fiscal years. The scope of the audit was limited to the largest City departments and concentrated on examination of retroactive pay, overtime, and telework. Other types of pay will be reviewed as part of a second phase of the audit and will be addressed in a separate audit report.

Findings and Conclusions: The audit indicated that the City Administrative Regulations (ARs), and department level regulations should be revised due to new business processes being implemented. They identified that the City had incurred excessive retroactive pay based on delays in the employee evaluation process. They identified that policies related to overtime should be updated to increase the requirement to receive prior approval before authorization. They also identified a small number of payroll errors regarding overtime which were caused by data entry errors. Finally they identified opportunities for improvement regarding the City's telework policy. CBIZ made a series of recommendations to address their findings.

Recommendations: The Office of Internal Audit reviewed the recommendations from CBIZ and issued nine (9) recommendations to the Department of Human Resources and four (4) to the Department of Finance. The recommendations are summarized below:

- Update the main City payroll related ARs to incorporate the findings made by CBIZ
- Distribute automated reports showing employee anniversary dates to department heads
- Incorporate telework practices into City ARs and change forms to reflect maximum number of teleworking hours authorized
- Fully implement policies requiring advanced approval of overtime
- Develop and distribute an analysis tool to identify duplicative payroll entry

Departmental Response: The departments acknowledged the results of the audit and have implemented several of the recommendations with other recommendations involving IT systems or larger policies scheduled for implementation by the end of FY2025.

Results of Contracted City-wide Payroll Audit Phase I

CO25-03

December 5, 2024



Contracted City-wide Payroll Audit Phase I
CO25-03
Table of Contents

	Page Number
Background	1
Purpose, Scope, and Methodology	
Purpose	1
Scope and Methodology	1
Findings and Recommendations	
1. Retroactive Pay	1
2. Overtime	2
3. Telework	2
4. Policies and Procedures	4
Conclusions	4
Recommendations	5
Departmental Response	6
Department of Human Resources Response	7
Department of Finance Resources Response	9

Background

In FY24 the Office of Internal Audit (OIA) requested funding to utilize our contingency audit contractor, CBIZ Risk and Advisory Services, to conduct an audit of payroll operations and a budget was provided for this task. Major concerns prompting the audit were turnover of key payroll staff members and the implementation of Collective Bargaining Agreements (CBA)s which are new to the City. The purpose of the audit was to conduct a review of payroll operations to identify areas of improvement to reduce risk of error or fraud.

OIA sent questionnaires to all departments regarding which departments had written policies, staffing, budgeting, and other key metrics. OIA provided the questionnaire to CBIZ as well as copies of all City CBAs, relevant Administrative Regulations, (ARs), and departmental policies. CBIZ conducted a risk analysis of the information and recommended that they focus their hours of work on the following departments (DCHS, Fire, ITS, Police, and T&ES)

Purpose, Scope and Methodology

OIA coordinated with ITS to provide five (5) years of payroll data from FY20 – FY24. CBIZ interviewed key department stakeholders and then analyzed the payroll data to identify areas for detailed testing. CBIZ requested samples to verify their review of the payroll data. Based on the budget and time available they focused on findings related to retroactive pay, overtime, telework, and the general City policies and procedures. CBIZ provided recommendations for immediate implementation which can be followed by additional audit work regarding other types of pay.

Findings, Conclusions, and Recommendations

Retroactive Pay

CBIZ determined that the City pays a large amount of retroactive pay each year. OIA confirmed CBIZ's analysis for FY24 and determined that a high average number of actions and expenditure amounts were submitted each pay period in FY24. CBIZ determined that retro pay was largely a function of failure of supervisors to conduct timely performance evaluations. Additional interviews indicated that if the performance evaluation process is not started several weeks prior to the anniversary date, that retro pay would be unavoidable. OIA consulted with OMB and determined that since merit increases are part of each department's personnel budget the financial impact is minimal, except to the extent that retro pay causes increased work for the Finance-Payroll staff who must adjust records for each pay period.

The extent that retro pay impacts on employee morale, work performance, and attrition was another area that we wanted to investigate. OIA identified that for personnel leaving the organization in FY24 almost 20% of them were issued retro pay. We are not aware of the number of personnel who left the organization that were owed a merit increase. To address the issue of retroactive pay CBIZ recommended the City take the following actions:

1. Distribute automated notification reports to department heads 30 to 60 days prior to the employee's anniversary date
2. Create an automated review process with digital signatures to eliminate problems of performance reviews having to be inter-office mailed
3. Create guidelines for supervisor accountability to address those that do not submit timely performance evaluations

Department Response
<i>DHR agreed to work with ITS to develop reports for notification of pending performance appraisals or manually generate reports for departments. They are working to begin implementation of the [REDACTED] module which will allow for automated review processes and digital approval. Should the number of past due appraisals remain over an acceptable tolerance, they will propose an update to Chapter 6 of the City's ARs.</i>

Overtime Pay

CBIZ analyzed five (5) years of payroll data and determined that the City exceeded its overtime budget each year during this period. OIA analyzed data from the City's accounting system and largely corroborated the information. Staff vacancies were identified as the largest driver of overtime, which is largely a function of minimum staffing and vacancies in the public safety departments.

CBIZ determined that advanced authorization of overtime is listed in City ARs and departmental regulations and believes it is a key control. CBIZ determined that the prior authorization of overtime requirement is generally not being followed. Lack of prior authorization exposes the City to the risk of unnecessary expenditures. CBIZ identified two (2) instances of improper overtime caused by data entry error. Staff members who enter their own time failed to remove regular hour punches after entering annual leave. Supervisors responsible for reviewing the timecards failed to note the discrepancy. CBIZ recommended the City take the following actions:

4. Fully implement policies requiring prior authorization of overtime.
5. Require analysis of fiscal year overtime prior to approval.
6. Standard approval form should be created.
7. An analysis tool should be developed by the Finance Department to identify duplicated pay codes leading to unnecessary overtime.

Department Response

<i>The Finance Department agreed to use the Fiscal Representatives meeting and a Department Head meeting to remind the organization of policies regarding prior approval of overtime. The department stated that requirements for analysis prior to approval of overtime would require a broader strategic discussion regarding overtime. They stated that a more modern approach to tracking and approval of leave requests and hours worked was being explored. They have deployed an analysis tool which will be used by departments to identify duplicated pay codes.</i>

Telework

CBIZ determined that City regulations are largely silent regarding telework. A.R. 6-14 and A.R. 6-18 which are the key regulations do not mention telework at all. In March 2023, the City Manager issued a memo which clarified expectations for teleworking staff members. CBIZ analyzed the payroll data and determined that the City Manager's memo is largely being complied with. CBIZ noted some exceptions to the telework directive in that some personnel had recorded more hours than were authorized and the range of these exceptions ran from very minimal to excessive.

Conversely, when OIA reviewed the CBIZ data we observed instances of personnel who may be teleworking which have not recorded any telework hours. OIA assesses that it is highly likely that some of these employees are teleworking. CBIZ recommended the City take the following actions:

8. The City Manager's memo be memorialized in ARs.
9. That the telework authorization form be modified to list the maximum number of hours.
10. That supervisors should receive training regarding the telework policy to allow for uniform enforcement of standards.

Department Response

<i>DHR agreed to propose an update to AR 6-14 Hours of Work and Special Pay to include the City Manager's guidance on telework. The draft of this update will be submitted to the City Manager and bargaining units by March 2025. They have also agreed to update the telework authorization form and create a training course for personnel regarding enforcement of the standards.</i>

Policies and Procedures

CBIZ analyzed the CBAs and the policies and procedures and identified policy gaps in the ARs, and departmental regulations. Their analysis of the CBAs was provided to the Acting Chief Labor Relations Officer for their review. CBIZ also determined that the City ARs, and department level regulations generally are out of date. CBIZ recommended the City take the following actions:

11. That the City establish a governance process to ensure that the policies are reviewed based on a regular schedule.
12. That AR6-14 and 6-18 be updated which would lead to additional department level policy review.
13. That procedures be put in place to hold staff accountable for non-compliance.

Department Response
<i>DHR agreed to propose an update to Chapter 6 identifying a schedule to review the administrative regulations. They have also agreed to propose updates to AR 6-14 Hours of Work and Special Pay and AR 6-18 Attendance and Leave. As per their response to the telework recommendations they have committed to creation of training materials for supervisors.</i>

Conclusion

The departments that were selected for this review account for 70% of the City's budget and 62% of the FTE count. Recommendations made by CBIZ, if fully implemented would improve discipline, greatly reduce Retro pay, reduce some of the overtime expenditures, and increase the integrity of the telework program. Additional audit work can be done to look at payroll processing and other pay types at the discretion of the City Manager.

CBIZ identified problems when they analyzed overtime which resulted in the creation of the analysis tool for departments to review their payroll and make corrections. If they were to review the payroll entry methods, it could result in the reduction of payroll entry methods and improvements to those methods that remain. Another concern is verification of shift differential and standby and callback pay. Verification of these methods would also support our external auditors by providing more supporting evidence that our payroll processes are sound.

Recommendations

OIA recommends that the Chief Human Resources Officer take the following steps:

1. Distribute automated notification reports to department heads 30 to 60 days prior to the employee's anniversary date
2. Create an automated review process with digital signatures to eliminate problems of performance reviews having to be inter-office mailed
3. Create guidelines for supervisor accountability to address those that do not submit timely performance evaluations
8. The City Manager's memo be memorialized in ARs.
9. That the telework authorization form be modified to list the maximum number of hours.
10. That supervisors should receive training regarding the telework policy to allow for uniform enforcement of standards.
11. The City establishes a governance process to ensure that the policies are reviewed based on a regular schedule.
12. That AR6-14 and 6-18 be updated which would lead to additional department level policy review.
13. That procedures be put in place to hold staff accountable for non-compliance.

OIA recommends that the Chief Human Resources Officer take the following steps:

4. Fully implement policies requiring prior authorization of overtime.
5. Require analysis of fiscal year overtime prior to approval.
6. Standard approval form should be created.
7. An analysis tool should be developed by the Finance Department to identify duplicated pay codes leading to unnecessary overtime.

Department Response

OIA received responses from the Department of Finance and Human Resources and has listed them with each section of this report. OIA will follow up with the respective departments until the recommendations have been fully implemented. Copies of the responses are attached.

City of Alexandria, Virginia

MEMORANDUM

DATE: NOVEMBER 5, 2024

TO: ROBERT SNYDER, CHIEF INTERNAL AUDITOR

FROM: ALYSSA WILLIAMSON, CHIEF HR OFFICER

SUBJECT: DHR AUDIT RESPONSE TO CITY-WIDE PAYROLL AUDIT

This memo has been prepared to update our department/office's response to the Office of Internal Audit (OIA)'s recommendations.

1. **Distribute automated notification reports to department heads 30 to 60 days prior to the employee's anniversary date**

DHR will meet with ITS to explore feasibility of automating reporting of past-due appraisals as well as appraisals due within the upcoming 60 days. These reports are currently available ad-hoc to department liaisons. If automation is not feasible, or cannot be implemented by January 2025, DHR will begin manually generating reports of appraisals that are past-due and due within 60 days and sending reports to department heads on a monthly basis.

2. **Create an automated review process with digital signatures to eliminate problems of performance reviews having to be inter-office mailed**

DHR will meet with [REDACTED] to begin implementation of the Perform module, which allows for an automated review process with digital approvals.

3. **Create guidelines for supervisor accountability to address those that do not submit timely performance evaluations**

DHR will review 2025 reports on past-due appraisals in the first quarter of CY 2026 to determine level of compliance. If appraisals continue to be consistently past-due (>10% of appraisals), DHR will propose an update to AR Chapter 6 specifying that failure to submit timely performance evaluations may subject an employee to discipline. DHR will prepare this update for discussion with the City Manager's Office and with unions that include supervisors in their bargaining unit.

8. **The City Manager's memo be memorialized in ARs.**

DHR will propose an update to AR 6-14: Hours of Work and Special Pay, to include the City Manager's guidance on telework. DHR will draft this and submit for discussion with the City Manager's Office and unions by March 2025.

- 9. That the telework authorization form be modified to list the maximum number of hours.**

DHR will draft an updated telework authorization form and propose to the City Manager's Office by March 2025, which includes the maximum number of hours permissible for telework based on level of position.

- 10. That supervisors should receive training regarding the telework policy to allow for uniform enforcement of standards.**

DHR will create microlearning on the telework policy by July 1, 2025, which explains the updated form and provides general guidance on enforcement of telework standards.

- 11. That the City establish a governance process to ensure that the policies are reviewed based on a regular schedule.**

DHR will propose an update to AR Chapter 6 identifying a schedule for review of administrative regulations. DHR will propose this update to the City Manager's Office by July 1, 2025.

- 12. That AR6-14 and 6-18 be updated which would lead to additional department level policy review.**

DHR will propose updates to AR 6-14 and AR 6-18. DHR will draft this and submit for discussion with the City Manager's Office and unions by March 2025.

- 13. That procedures be put in place to hold staff accountable for non-compliance.**

DHR will include content in the microlearning referenced in Recommendation No. 1 that clearly states that managers are responsible for monitoring their employees' use of telework. DHR will meet with Finance and OPA to identify areas for process improvement across Finance and DHR for payroll purposes.

Please contact Alyssa Williamson at [REDACTED] for more information.

City of Alexandria, Virginia

MEMORANDUM

DATE: NOVEMBER 5, 2024

TO: ROBERT SNYDER, CHIEF INTERNAL AUDITOR

FROM: KENDEL TAYLOR, DIRECTOR OF FINANCE [REDACTED]

SUBJECT: FINANCE DEPARTMENT AUDIT RESPONSE TO CITY-WIDE PAYROLL AUDIT

This memo has been prepared in response to the Office of Internal Audit (OIA)'s recommendations.

4. Fully implement policies requiring prior authorization of overtime.

The Finance Director will use the Fiscal Reps meeting and a Department Head meeting to remind the organization of this policy. In the Finance Department specifically, overtime is authorized for specific work periods to address demand (personal property tax processing, year end audit, business tax files). The nature of the work, and specifically overtime work, varies considerably among departments (e.g. public safety) and can be seasonal in nature (e.g., Recreation) and may need deeper consideration given the complexity of City-wide operations.

5. Require analysis of fiscal year overtime prior to approval.

This recommendation should be considered in the context of current budgetary practices and in consideration of possible service impacts.

6. Standard approval form should be created

A pilot is underway in both HR and Finance to utilize modern technology (Microsoft Outlook) for a more automated scheduling and approval workflow, rather than reverting to approval forms for leave requests and tracking.

7. An analysis tool should be developed by the Finance Department to identify duplicated pay codes leading to unnecessary overtime.

The [REDACTED] Manager has prepared a power point that will be shared via email with timekeepers and posted on [REDACTED]. This information provides tools for better review of employee timecards. With additional resources and experience, the [REDACTED] Manager would like to increase her outreach and training across the organization.