

# PAYROLL TIMEKEEPING FOLLOW-UP AUDIT

Finance and Budget; Human Resources;  
Information Technology

September 18, 2024

Avondale

OFFICE OF CITY AUDITOR

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# EXECUTIVE SUMMARY

## PAYROLL TIMEKEEPING FOLLOW-UP AUDIT

Date: September 18, 2024 | Project Number: 12501

### AUDIT OBJECTIVE

The objective of this audit is to determine whether department action plans were implemented for each audit recommendation made in the Payroll Timekeeping audit dated November 9, 2021. The objective is also to determine the effectiveness of the internal controls implemented.

In FY 2020 there were approximately 600 employees, 34 paycodes used and \$61 million in payroll costs. In FY 2024, there were approximately 840 employees, 36 paycodes used, and \$103 million in payroll costs.

### CONCLUSION

Management has made significant progress to create and clarify policies relating to timekeeping and pay requirements since 2021. Internal control processes were implemented. Training was provided to department supervisors. Most policies and the related internal controls implemented as part of management action plans from 2021 were approved and made effective July 1, 2024.

The 2021 Payroll Timekeeping audit report included 33 audit recommendations. All recommendations were implemented except three which remain open and in progress.

- 2 policies (holiday and military leave) did not address all recommended areas.
- 1 department procedure for entering data into ADP is currently in progress.

Auditor tested internal controls designed to ensure compliance with payroll policies. Payroll relies on supervisors to approve timecards for accurate reporting. Payroll also reviewed individual timecards to verify compliance with existing and new policies. Auditor tested the effectiveness of the established internal controls. Exceptions were found in the following areas:

- Timecards not approved by employees and supervisors.
- Duplicate payroll transactions were processed.
- Bereavement usage without providing the relationship to determine eligibility.
- Military leave usage over the allowable number of leave hours.
- Holiday leave usage not consistent with established policy.

### CITY AUDITOR SUMMARIZED RECOMMENDATIONS

- The three 2021 audit recommendations that were partially implemented will remain open and continue to be tracked and monitored by Audit.
- Payroll should incorporate regularly scheduled analytic reviews with targeted spot checking of on call and callback, bereavement, holiday, and military leave usage to ensure compliance with policies and ensure transactions are not duplicated.

Management agreed with all recommendations and responded with action plans and target completion dates.



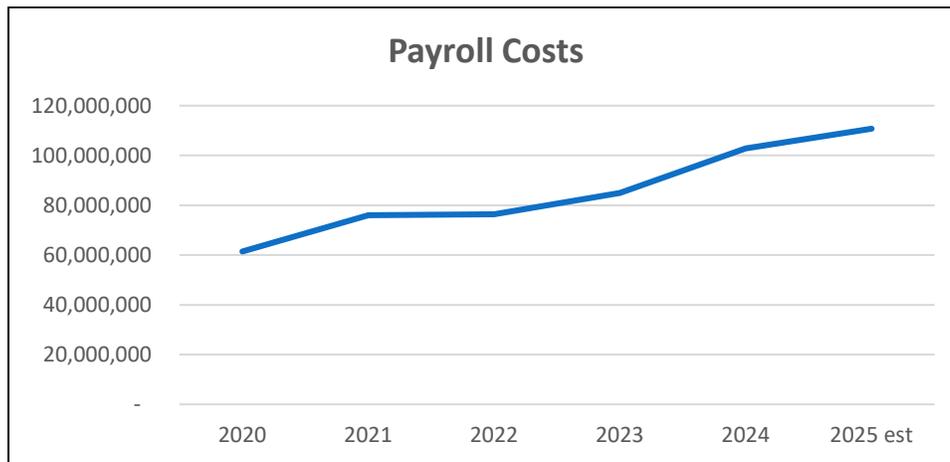
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## BACKGROUND

The objective of the 2021 Payroll Timekeeping audit was to determine whether controls exist to ensure the accuracy of employee timekeeping. The audit report included 33 recommendations and overall stated that policies should be revised to provide clarity, and procedures should be implemented to ensure consistent compliance to the newly established policies. The Finance and Budget (Finance), Human Resources (HR), and Information Technology (IT) departments concurred with the recommendations presented in the report and developed action plans and estimated implementation dates for each recommendation.

The Payroll Costs graph below shows the increasing payroll costs from FY2020 through FY2025.



The 2021 recommendations presented in this report are summarized and grouped to the extent possible. All recommendations are marked as either implemented (green) or not implemented (black).

## OBSERVATION 1: ADP ACCESS RIGHTS

*The 2021 audit recommendations relating to ADP access rights were implemented and working as intended.*

Finance and HR collaborated with Automatic Data Processing, Inc. (ADP) to review practitioner user access rights and to ensure employees are assigned in pre-established roles. IT implemented an online workflow system (TeamDynamix) to track all ADP practitioner requests. Supervisors are required to complete a form for each practitioner request.

Forty-six employees were assigned to practitioner roles within ADP. All 2021 audit recommendations relating to user access controls were implemented. Auditor selected four recent practitioner assignments for further testing. All four employees' practitioner roles were requested via a form in TeamDynamix, and supervisory and HR approval was obtained.

Status	Original Recommendation
✓	Confirm the seven (7) practitioner roles not properly authorized or remove the employee from the practitioner account.
✓	Standardized the ADP practitioner request form to include what is required prior to adding or changing practitioner roles.
✓	Ensure practitioner role requests are processed through an online workflow tracking system.
✓	Review and document practitioner roles and access rights for each group to ensure adequate segregation of duties. Ensure access rights are established by practitioner roles versus individuals.

According to the National Institute of Standards and Technology (NIST), a scheduled review and a regular check on employee's current permissions are best practices to ensure appropriateness of user access over time and to ensure compliance with the principle of least privilege. Implementing this control will further increase security relating to access controls.

### AUDITOR RECOMMENDATION

1.1 IT implement a scheduled process (i.e. at least once a year) for departments to review ADP practitioner permissions to ensure appropriateness of user access over time and to ensure compliance with the principle of least privilege. IT should document user permission reviews. When a new practitioner role is created, the employee's director, HR director, and Finance Director should approve the security privileges of the new role.

Management's Response – Target date will be 11/01/2024 to get this process developed and put in place. Going forward, this annual process will be performed at the beginning of each fiscal year no later than 07/31.

## OBSERVATION 2: POLICIES, PROCEDURES, & EMPLOYEE TRAINING

*HR revised and clarified policies to address the areas identified in the 2021 audit. Department detailed procedures and enhancing supervisory review processes are currently in progress.*

HR revised City policies Chapter 6, *Employee Benefits*, effective July 1, 2024, and Administrative Policy 38, *Timekeeping and Hours Worked*, effective June 11, 2024. These policies addressed the recommendations made in the 2021 Payroll Timekeeping audit.

HR is drafting detailed department procedures on the requirements of processing data within ADP. Recently, HR performed supervisory reviews to ensure data was accurate in ADP. Supervisory reviews were documented using a checklist.

HR and Finance provided employee training to supervisors throughout the year. The new policies were sent to employees via the online learning portal, Safe Personnel, for review and acknowledgement. Training for policies effective July 1, 2024, has yet to be provided.

Status	Original Recommendation
In progress	HR create detailed department procedures that defines pay and benefit categories and areas specific to be checked (in ADP) for exempt and nonexempt employees.
✓	HR conduct supervisory reviews to ensure the accuracy of new employee data and coding entered in ADP.
✓	Finance to provide timekeeping training and a policy requirement review.
✓	HR work with Finance to update payroll policies to clarify the following <ul style="list-style-type: none"> <li>○ Recording of time for non-exempt employees.</li> <li>○ Requirements of supervisory comments and approved to be documented in ADP.</li> <li>○ Allowable processes for supervisors to add missed punches.</li> <li>○ Clarify policy for City standard regarding lunch breaks.</li> </ul>

### AUDITOR RECOMMENDATIONS | MANAGEMENT’S RESPONSE

Previous recommendation will remain open until completed.

Management’s Response – Revised target completion date is March 31, 2025.

2.1 HR provide timekeeping training that addresses areas covered in the new policies effective July 1, 2024.

Management’s Response - HR assigns staff to review and acknowledge policy changes and timekeeping guidance via Safe Personnel as policies are adopted or revised.



HR and Payroll offer in-person timekeeping training throughout the year as a component of the City's leadership development programs.

Additionally, HR is collaborating with Payroll to create on-demand online timekeeping training for employees and supervisors set to launch in January 2025. Target date of completion is January 30, 2025.

### OBSERVATION 3: TIMECARD APPROVAL

*To ensure supervisors are approving employee timecards, Payroll reviews approvals each pay period and notifies employees and supervisors of timecards not approved. Timecards processed without approvals are decreasing through awareness, but still occur. This is a key control designed to ensure reporting accuracy.*

According to the City’s Administrative Policy 38, *Timekeeping and Hours Worked*, managers and supervisors must verify and approve employees’ timekeeping entries to ensure the correct hours are reported. This policy was in effect as of June 11, 2013, and revised again on June 11, 2024.

Payroll monitors compliance to ensure timecards are approved by employees and supervisors and notifies (via email) anyone without an approved timecard. Four pay periods were selected to determine the effectiveness requiring employee and supervisory approval of timecards. The approximate number of employees during our testing period was 880.

**Table 3.1 - Timecard Approval**

Pay Period	Without Employee Approval	Without Employee or Supervisor Approval
5/15/2024	58	10
5/26/2024	40	8
6/9/2024	51	7
6/23/2024	38	2

Status	Original Recommendation
✓	Finance implement a process to ensure all employees and supervisors are approving timecards at the end of each pay period. Implementation should include training and follow-up.
✓ Note 1	HR work with Finance to create a general standard or form for supervisors to track all time off requests. The purpose of tracking requested time off is to capture time not entered or duplicated in ADP.

Note 1 – Per HR, training was provided to supervisors to ensure all employees’ leave and time off is reported in ADP. The sole use of ADP was desired versus requiring supervisors to use a separate tracking form. Therefore, the control requiring supervisor approval of timecards each pay period is a key control.

### AUDITOR RECOMMENDATIONS | MANAGEMENT’S RESPONSE

3.1 Payroll should report to department directors when timecards within their department are not approved, requiring training and/or disciplinary actions for those supervisors who habitually do not ensure timecard approvals.



Management's Response - The payroll staff will begin on the 9/19 payroll including department directors on the emails that are sent out each payroll for all employees and/or supervisors who are noncompliant with timecard approval. Payroll will develop standard metrics that will be used to take action on habitual offenders. Target date of implementation is October 15, 2024.

## OBSERVATION 4: TIMECARD ACCURACY

*Internal controls were not effective to detect or prevent duplicate transactions. Duplicate transactions resulted in a loss of available leave and sometimes unauthorized payouts.*

Payroll relies on supervisors to review timecards for accuracy in addition to reviewing individual timecards. Auditor obtained all payroll transactions from July 1, 2022, through April 30, 2024. Some duplicate transactions result in the employee receiving an unauthorized payout of leave (i.e. paid for 50 hours vs 40 hours in a week). In other situations, an employee may lose available leave hours because leave was processed twice; however, due to ADP's built-in control, it prevents exempt employees from receiving over 40 hours of pay per week.

**Table 4.1 - Duplicate Transaction Testing**

Area	Duplicate Transactions	Unauthorized Payout
Vacation	6	2
Sick	2	1
Holiday Shift Diff	1	0
Holiday Bank	4	2
Bereavement	1	0
Military	0	0
Overtime	0	0
<b>Total</b>	<b>12</b>	<b>8</b>

Status	Original Recommendation
✓	Finance work with IT and ADP to identify if built-in controls can be used to prevent duplicate processing of sick and vacation leave. In lieu of built-in controls, identify alternate controls to prevent duplicate processing.
✓	Finance review duplicate and/or ineligible sick, vacation, bereavement, holiday and military pay made to employees and identified in this audit and make corrections as required.

## AUDITOR RECOMMENDATIONS | MANAGEMENT'S RESPONSE

4.1 Payroll should make corrections to employee leave balances where duplicate transactions were identified and recoup unauthorized payments where applicable.

Management's Response - Payroll will process adjustments necessary to correct duplicate transactions and/or work with HR to establish the action to be taken for overpayments. Target date of implementation is September 19, 2024.

4.2 Payroll should incorporate regularly scheduled analytic reviews with targeted spot checking of on call and callback usage, bereavement, holiday, and military leave usage to ensure compliance with policies and ensure transactions are not duplicated.



Management's Response - Payroll will work with IT to establish reports to streamline the process of reviewing on-call, callback, bereavement, holiday, and military usage to ensure compliance with policy. Target date of implementation is October 30, 2024.

## OBSERVATION 5: HOLIDAY LEAVE

*Payroll follows-up with supervisors and employees when employees do not report holiday hours on a designated holiday. Controls rely heavily on department supervisors to ensure accuracy and to timely report to Payroll when employees are required to work on the holiday, which does not always happen.*

Chapter 6, *Employee Benefits*, was replaced with Administrative Policy 39, *Holiday Leave Policy*, effective July 1, 2024. The new policy addressed some areas noted in the 2021 audit. Auditor tested the June 19, 2024, holiday and noted the following.

- 8 instances of sick leave were charged on a holiday, which did not comply with City policy. Seven employees were non-exempt, and one employee was exempt.
- 8 exempt employees worked on a holiday and did not charge holiday time. Allowing exempt employees to work on a holiday and not charge holiday time is not in policy.
- 1 exempt employee did not charge holiday time and did not indicate that they worked on the holiday. During the course of the audit, the employee was determined to have worked.
- 1 employee was on military leave and did not record holiday time. It is unclear in the holiday and military policy what process is to be followed in this situation.

The following are the results of the July 4, 2024, holiday.

- 1 non-exempt employee used sick leave on the holiday, which did not comply with policy.
- 2 exempt employees worked on the holiday and did not use holiday leave. Allowing exempt employees to work on a holiday and not charge holiday time is not in policy.
- 11 exempt employees did not use holiday leave or indicate they worked. In these instances, holiday leave should have been used and the hours deducted from the available balance. ADP will default to paying regular pay in the absence of reporting holiday leave. Auditor later was informed by the departments that four employees worked on the holiday.

Status	Original Recommendation
In progress	HR comply with and clarify City Chapter policies 5 and 6 regarding how holiday hours are to be used including the following: <ul style="list-style-type: none"> <li>○ Recording and prioritizing the use of holiday hours on designated city holidays</li> <li>○ Limiting the use of other leave codes on designated city holidays</li> <li>○ Providing guidance on the process and consideration for allowing exempt and non-exempt employees to work on a designated holiday.</li> </ul>
✓	Finance work with IT and ADP to identify preprogramming of holiday leave hours within ADP. Also, implement a process to record approvals and exceptions to the holiday rule within ADP.

✓	HR determine if identified exempt employees who did not record holiday time on designated holidays are valid. Work with the City Attorney to assist with recoupment.
✓	Finance implement controls to ensure Holiday Shift Differential pay is paid for designated holidays only.

**AUDITOR RECOMMENDATIONS | MANAGEMENT’S RESPONSE**

Previous recommendations will remain open until completed.

Management’s Response – Revised target completion date is March 31, 2025.

5.1 Payroll should incorporate controls to ensure that sick time is not used in lieu of holiday time or holiday time is used for exempt employees as required by policy or consider working with HR to revise policy.

Management’s Response - Payroll will incorporate the review of sick time usage on holidays into their processing checklist. Target date of implementation is October 3, 2024.

## OBSERVATION 6: ON CALL AND CALLBACK

**A new City Administrative Policy 95, *Compensation*, addressed all areas identified in the 2021 audit report.**

The City's Administrative Policy 95, *Compensation*, dated July 1, 2024, provides the requirements when an employee is considered in an on-call status, the on call pay rate, on call pay exclusions and responsibilities, including supervisor responsibilities for reviewing and accurately recording hours associated with on call and callback status. The policy also clarifies the callback pay rate to use when reporting in-person to a physical worksite versus when reporting remotely via phone or computer. Finance Payroll relied on supervisors to approve timecards for accuracy of on call and callback. We selected all 22 on call and callback instances, reported in increments less than 2 hours, from January 1, 2024, through July 30, 2024.

### *On Call Testing*

- 3 instances were recorded per policy. Two instances were applicable under the old policy and one was under the new policy.

### *Callback Testing*

- 19 instances occurred after July 1, 2024 and complied with City policy (i.e. 15 minute increments or 2 hour increments).
- 14 out 15 callback instances that occurred in July 2024 accurately contained a comment to determine if the recorded hours complied with the policy.

Status	Original Recommendation
✓	HR require employees who are "called back" to enter their time and total hours in the comment section within ADP so eligibility can be established.
✓	Finance implement controls to ensure Callback requirements of 2 hours minimum are followed.
✓	Finance work with HR and the City Attorney to determine validity of Call-Out Pay (i.e. not meant for lunch breaks or to round out time, etc.) and pay eligible employees for missed hours.
✓	HR review opportunity for cost savings to the City and the use of On-Call and Callback. Provide guidance for departments on the use of callback hours to reduce the risk for increased safety issues and misappropriation of payroll dollars.
✓	HR define Call-out, who is eligible, when it should be used, and reporting requirements (i.e. using the comment area within ADP to document approval and times).

## AUDITOR RECOMMENDATIONS

None.

## OBSERVATION 7: BEREAVEMENT LEAVE

*The newly approved bereavement policy included all areas addressed in the 2021 audit report. Compliance with the policy has not been established.*

City policy Chapter 6, *Employee Benefits*, was revised on June 17, 2024, and effective on July 1, 2024. This policy includes clarification on the bereavement leave benefit as recommended in the Payroll Timekeeping audit. Auditor reviewed all reported bereavement leave for the month of July 2024 to test compliance with the policy. A total of 488 hours were reported from 14 employees. A sample of none employees and ten transactions were selected for testing. The following are the results.

Relationship was documented in ADP as required per policy.

1 – Compliant; 8 Not Compliant

Hours reported were within policy (i.e. 10 or 40 hours)

3 – Compliant; 7 were undetermined and therefore not compliant

Status	Original Recommendation
✓	HR revise Chapter 6, Bereavement policy to clarify the maximum entitled hours (i.e. 10 hours versus 8 hours shifts) and require deceased relationship to be identified to determine eligibility.
✓	HR apply policy requiring the use of sick, vacation, or FLMA time for employees who require more time than allotted in the bereavement policy

### AUDITOR RECOMMENDATION | MANAGEMENT'S RESPONSE

7.1 Payroll should conduct periodic (i.e. monthly) bereavement reviews to determine if the correct hours were reported (i.e. 10 or 40 hours).

Management's Response - Payroll will utilize the reports stated above in 4.2 to review bereavement usage is compliant with policy based on the relationship noted in the timecard. Target date of implementation is October 30, 2024.

## OBSERVATION 8: MILITARY LEAVE

**HR provided military leave training to supervisors and an automated process to track military leave. The newly revised policy does not include all the recommended areas recommended in the 2021 audit.**

City policy Chapter 6, *Employee Benefits*, dated July 1, 2024, does not address the areas recommended in the 2021 audit. Auditor reviewed compliance with the 2021 audit recommendation regarding recoupment. Per HR analysis, four employees were determined to be overpaid. Per management discretion, recoupment was not sought. For the second period of entitlement, a new automated process within ADP was used to post the allowable number of military leave for each eligible employee. This automated process did not work as intended and allowed more military hours to be used than was loaded in ADP. Auditor noted at least one employee was overpaid.

Since 2023, modifications have been made to the automated control in ADP. Auditor observed the automated internal control appeared to be working as intended as of August 2024. Auditor reviewed military leave hours for the current eligibility period of October 1, 2023 - September 30, 2025, and determined the hours allotted in ADP were not exceeded. The end of the two-year eligibility period is September 30, 2025.

Status	Original Recommendation
In progress	<p>HR revise policy to clarify military pay benefit. At a minimum, include the following areas:</p> <ul style="list-style-type: none"> <li>○ Compare and make revisions to Chapter 5 and 6 for consistency</li> <li>○ Clarify benefit of 30 days or 30 working days</li> <li>○ Define the two consecutive year terms</li> <li>○ Clarify the maximum military entitlement in hours</li> <li>○ Identify responsible parties for managing and tracking military leave</li> <li>○ Clarify the leave accrual process when on military leave</li> <li>○ Clarify if employees receive military pay while not regularly scheduled to work</li> </ul>
✓	HR recoup military benefit overpayment. Review military entitlement and supporting documentation for the 18 employees who received military pay during CY2020. Work with Finance to recoup ineligible payments.
✓	HR work with Finance to incorporate controls with ADP to automatically place maximum limits on military pay or incorporate alternate internal controls.

## AUDITOR RECOMMENDATIONS | MANAGEMENT’S RESPONSE

Previous recommendations will remain open until completed.

Management’s Response – Revised target completion date is March 31, 2025.

8.1 Payroll should conduct periodic (i.e. monthly) military usage reviews to ensure usage does not exceed the preestablished approved hours in ADP.



Management's Response - Payroll will utilize the reports stated above in 4.2 to ensure military usage is limited to approved hours. Target date of implementation is October 30, 2024.



## APPENDIX A

### SCOPE

The scope of this project was from July 2022 through July 2024 unless where indicated in the report.

### METHODS USED

To accomplish our objectives, we reviewed the following:

- Chapter 6, *Employee Benefits*, effective July 1, 2024.
- Administrative Policy 38, *Timekeeping and Hours Worked*, effective June 11, 2024.
- Administrative Policy 95, *Compensation*, effective July 1, 2024.
- Ariz. Rev. Stat. § 38-610, which relates to military leave.
- National Institute of Standards and Technology (NIST) 800-59, which discusses best practices relating to user access.
- Interviewed Finance and Budget, Human Resources, and Information Technology department personnel to identify and evaluate established processes.
- Tested key internal controls to verify that established procedures were followed and working as intended.
- Unless otherwise mentioned in the report, all sampling in this audit was conducted using a judgmental method 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.

### AUDIT STANDARDS

We conducted this performance audit in accordance with generally accepted government auditing standards except for an independent peer review. The auditing standards require that we plan and perform the 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. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.